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IOB Evaluation

Work in Progress

Evaluation of the ORET Programme: Investing in Public Infrastructure in Developing Countries

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July 2015

Preface

If you live long enough, you may have the good fortune of being around to see your grandchildren grow up. While this is considered a normal situation for human beings, it rarely happens to development cooperation programmes. An exception is the Development-Related Export Transactions programme (ORET, the Dutch acronym for *Ontwikkelingsrelevante Export Transacties*). After its closure for new applications in August 2007, the “child” ORIO appeared in 2009 and then closed for new applications in April 2014. “Grandchild” DRIVE has become operational by mid June 2015, but some ORET transactions are still active. The last one is expected to be completed in 2017, a good reminder of the long-lasting consequences that political decisions to terminate infrastructure programmes can have.

Having existed in various configurations since 1979, ORET has been the longest surviving private sector development programme of the Netherlands. As a result, in the capitals of developing countries and in the executive boards of applicant companies the acronym is still recognised and has brand value. ORET has seen its official goals evolve and adapt to the changing views of successive governments about development cooperation and private sector development. During its lifetime ORET was also evaluated several times by IOB and external consultants, most recently in 2005-2006. Their recommendations were not always fully implemented. This final evaluation assesses the achievements of ORET and accounts for the resources used (financial and otherwise), particularly in the period 2007-2012. Again it aims to learn lessons for public infrastructure investment programmes and private sector development policies. With the emergence of DRIVE, an exceptional opportunity arises to pass on some valuable lessons to the next generation of infrastructure programmes.

Public infrastructure is at the core of structural transformation of economies. Demand for it even seems to be accelerating as developing countries’ economies grow. There is broad international consensus that a country’s infrastructure is a critical factor to attract foreign direct investment (FDI), promote trade and sustain growth. Infrastructure is also crucial to support social progress and to achieve the Millennium Development Goals. For many poor people in low-income countries and in many middle-income countries, however, access to basic infrastructure services is still a major obstacle. Hence infrastructure focused on poverty reduction can be an important tool for combating poverty.

Ideally, public infrastructure development in developing countries would best be served by stronger domestic resource mobilisation in the developing countries themselves. The international community should support effective public finance management systems and efficient government procurement capacity that offer value for money and are accountable to domestic constituencies. Most of the finance for infrastructure in most developing countries – no matter how poor – already comes from domestic resources, in the form of taxes, user fees or public-private partnerships. Donors still have a relevant role to play in promoting sustainable development and poverty reduction in poorer developing countries

through improving and building public infrastructure. Preferably such programmes have a strong poverty focus, are additional and avoid distorting the market.

In most developing countries, neither the market and private investors nor government seem to develop and mobilise sufficient finance for socio-economic infrastructure focused on poverty reduction. Yet the needs for such infrastructure and the development pay-off are huge. From a recipient perspective, well-funded multilateral investment programmes, not driven by commercial considerations of national companies, are most suitable for complementing efforts of developing countries. From a donor's perspective, a second-best approach is to supplement such infrastructure programmes by decentralised bilateral programmes in niches, which are aligned with the recipient country's policy, integrated in a bilateral aid programme (if any) and do not distort the market with aid funds.

In the real world, we assume that the Netherlands wishes to maintain a bilateral and centrally-managed infrastructure subsidy programme for developing countries, similar to that of other donor countries. Almost 40 years of experience with ORET confirms the common desire to continue such a programme in some form in order to mobilise the infrastructure development potential of the Dutch business sector in certain niches and to maintain broad-based political domestic support for development cooperation. Recognising this political reality and based on the findings of this evaluation, IOB offers some suggestions for improving a successor programme. In essence they entail maintaining the basic structure of ORET but with more checks and balances and with tailor-made modalities (relating to financing and technical assistance) geared towards poverty-focused infrastructure. This may enhance the development relevance and achieve more value for money.

Responsibility for this evaluation rested with IOB evaluator Otto Genee and his research assistant Bart van Rijsbergen. The consultants' team for the evaluation comprised Nico van der Windt (team leader from Erasmus University), Hans Slegtenhorst (Carnegie Consult), Elena Gross (University of Bayreuth), Niek de Jong (Erasmus University), Alexander Otgaar (Erasmus University) and Jan-Jelle Witte (Erasmus University). The following evaluators also contributed to the underlying case studies and the portfolio review of this evaluation:

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- Tanzania medical diagnostic services: Hans Severens and Dereck Chitama
- Tanzania airport rehabilitation: Adalbertus Kamanzi and Victor George
- Guatemala Champerico fishery port: José Rafael del Cid and Vivian Guzmán
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A reference group commented and advised the former director of IOB Ruerd Ruben on this report. The group consisted of Jan-Willem Gunning (Professor Emeritus at the VU University Amsterdam), Eva Ter Berger (KfW Development Bank, Frankfurt), Andri van Mens (Department of Sustainable Economic Development), Lennart Konijnenberg (PwC), Bert Vermaat (the Financial and Economic Affairs Department) and Rutger Schouwink (Directorate-General Foreign Economic Relations). Antonie de Kemp, Peter Henk Eshuis and Willem Cornelissen (IOB) were peer reviewers of the evaluation. Joy Burrough-Boenisch and IOB desk editor Jochem Hemink provided valuable input regarding language and editing.

IOB would sincerely like to thank all companies, end users, policy officers and stakeholders involved for the information they provided and their constructive feedback to draft versions of the reports.

Responsibility for the content of this report rests with IOB.

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List of acronyms and abbreviations

ADB	Asian Development Bank
AFD	French Development Agency (*l'Agence Française de Développement*)
AIT	Advanced Institutes of Technology, Sri Lanka
AMWC	Al Manara Water Company (Sudan)
Atradius DSB	Atradius Dutch State Business
BMZ	German Federal Ministry for Economic Co-operation and Development (*BundesMinisterium für Wirtschaftliche Zusammenarbeit und Entwicklung)*
BOOT	Build, Operate, Own and Transfer
BR	Bangladesh Railway
BRT	Bus Rapid Transit
CABRI	Collaborative Africa Budget Reform Initiative
CBI	Centre for the Promotion of Imports from developing countries (*Centrum tot Bevordering van Import uit ontwikkelingslanden*, the Netherlands)
CIRR	Commercial Interest Reference Rate
DAC	Development Assistance Committee
DDE	Sustainable Economic Development Department (Ministry of Foreign Affairs, the Netherlands)
DDE/OB	The Entrepreneurship and Business Development Division of the Sustainable Economic Development Department (Ministry of Foreign Affairs, the Netherlands)
DfID	Department for International Development (United Kingdom)
DGBEB	Directorate-General for Foreign Economic Relations (Ministry of Foreign Affairs, the Netherlands)
DGGF	Dutch Good Growth Fund
DGIS	Directorate-General for International Cooperation (Ministry of Foreign Affairs, the Netherlands)
DREE	Department of External Economic Relations at the French Ministry of Economic Affairs (*Direction des Relations Economiques Extérieures*)
DRIVE	Development Related Investment VEhicle
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECA	Export Credit Agency
ECI	Export Credit Insurance
ECNEC	Executive Committee of National Economic Council (Bangladesh)
EIA	Environmental Impact Assessment
EKF	Danish Export Credit Agency (*Eksport Kredit Fonden*)
EPNAC	Guatemalan port authority (*Empresa Portuaria Nacional de Champerico*)
ERTC	Emergency Response Training Centre, Sri Lanka
FC	Finance Costs
FDI	Foreign Direct Investment
FINEXPO	Belgian Committee providing aid for Belgian exports responsible to the Minister for Foreign Trade

FMO	Netherlands Development Finance Company (*Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV*)
FMO/CD	FMO's Capacity Development Facility
FPS	Belgian Federal Public Service (*Federale Overheidsdienst*)
GHS	Ghanaian cedi; unit of currency of Ghana
GOM	Dutch Emerging Markets Guarantee Facility (*Garantiefaciliteit Opkomende Markten*)
GPRS	Ghana Poverty Reduction Strategy
GTLP	Global Trade Liquidity Program
GVB	Public transport company Amsterdam (*Gemeentelijk VervoersBedrijf*)
GWCL	Ghana Water Company Limited
HGIS	Homogenous Budget for International Cooperation (*Homogene Groep Internationale Samenwerking*)
HIPC	Heavily Indebted Poor Countries
HNDE	Higher National Diplomas in Engineering (Sri Lanka)
ICAO	International Civil Aviation Organization
ICB	International Competitive Bidding
ICT	Information and Communication Technology
IDC	Industrial Development Cooperation (South Africa)
IDF	Infrastructure Development Fund
IDH	The Sustainable Trade Initiative (*Initiatief Duurzame Handel*, the Netherlands)
ILO	International Labour Organization
IMED	Implementing Monitoring and Evaluation Department (Bangladesh)
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department (Ministry of Foreign Affairs, the Netherlands)
IOM	International Organization for Migration
JBIC	Japan Bank for International Cooperation
JNIA	Julius Nyerere International Airport (Tanzania)
KfW	German Development Bank (*Kreditanstalt für Wiederaufbau*)
KSWC	Khartoum State Water Corporation
LAC	Latin America and the Carribean
LCL	Less Concessional Loans
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle-Income Country
M&E	Monitoring and Evaluation
MASSIF	Micro & Small Enterprise Fund
MDGs	Millennium Development Goals
MEXIM	Export-Import Bank (Malaysia)
MILIEV	Environment and Economic Self Reliance (*Milieu en Economische Verzelfstandiging*)
MMT	Metro Mass Transit (Ghana)

MOFEP	Ministry of Finance and Economic Planning (Ghana)
MoHSW	Ministry of Health and Social Welfare (Tanzania)
MOL fonds	See IDF (*Minst Ontwikkelde Landen fonds*)
NABU	Netherlands Association of International Contractors (*vereniging van Nederlandse Aannemers met belangen in het BUitenland*)
NCSTE	National Centre for Science and Technology Evaluation (China)
NIO	Netherlands Investment Bank for Developing Countries (*Nederlandse Investeringsbank voor Ontwikkelingslanden*)
NIPP	Netherlands-IFC Partnership Program
NRW	Non-Revenue Water
ODA	Official Development Assistance
ODI	Overseas Development Institute (UK)
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturers
ÖKB	Austria's export credit agency (*Östereichische KontrollBank*)
ORET	Development-Related Export Transactions Programme (*Ontwikkelings-Relevante Export Transacties*)
ORET.nl	Organisation mandated to implement ORET. A consortium comprising PwC and ECORYS
ORIO	The Facility for Infrastructure Development (*OntwikkelingsRelevante InfrastructuurOntwikkeling*)
OSA	Omnibus Service Authority (Ghana)
PEFA	PErformance measurement FrAmework
PESP	Fund for feasibility studies (*Programma Economische Samenwerking Projecten*, the Netherlands)
PIDG	Private Infrastructure Development Group
PMS	Philips Medical Systems
PPP	Public Private Partnership
PSD	Private Sector Development
PSOM/PSI	Private Sector Investment programme (*Programma Samenwerking Opkomende Markten*)
PT PLN	State Electricity Company Indonesia (*Perusahaan Listrik Negara*)
PUM	Dutch Manager Deployment Programme (*Programma Uitzending Managers*)
PwC	PricewaterhouseCoopers
RPE	French Reserve for Emerging Economies (*Réserve Pays Emergents*)
RVO	Netherlands Enterprise Agency (*Rijksdienst Voor Ondernemend nederland*)
SDR	Special Drawing Rights. Currency value, based on basket of major currencies
SENO	Dutch facility to insure exports (*Stichting Economische samenwerking Nederland Oost-Europa*)
SGS	Société Générale de Surveillance
SLIATE	Sri Lanka Institute of Advanced Technical Education
SME	Small and Medium Enterprises

STC	State Transport Company, Ghana
TA	Technical Assistance
TAA	Tanzanian Airports Authority
TCX	The Currency Exchange Fund (the Netherlands)
ToR	Terms of Reference
TVET	Technical Vocational Education and Training (Sri Lanka)
UNCTAD	United Nations Conference on Trade And Development
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VNO-NCW	Dutch employers' organisation
WAM	Water Asset Management (Sudan)
WB/IFC	World Bank / International Finance Corporation
WB-UPT	World Bank – Urban Passenger Transport Project
WHO	World Health Organization
ZSP	Priority Zone of Solidarity (*Zone de Solidarité Prioritaire*, France)



Highlights

Main Findings

1. ORET has addressed important obstacles for development by co-financing the construction and rehabilitation of public infrastructure in developing countries. Over time ORET evolved from a programme of mere delivery of capital goods from the Netherlands to a programme offering comprehensive infrastructure service packages that were also financially attractive for recipient governments.
2. As a result of the 2005 policy shift in which the ORET objectives shifted towards strengthening sustainable economic development, the effect of the programme as a whole on poverty reduction was reduced even though this shift was mostly in line with the priorities recipient governments expressed in the applications.
3. Although the increasing inclusion of technical assistance, maintenance and capacity building for clients after 2005 clearly improved, the sustainability of ORET transactions, particularly financial sustainability, remains a challenge.
4. Although combining ORET grants with non-grant financing had a positive leveraging effect, recipients faced high one-off finance costs to secure and insure commercial loans. By and large ORET funding was additional but had only a modest catalytic effect on follow-up investments.
5. ORET remained a somewhat isolated programme that was hardly complementary to other Dutch aid and private sector development activities. This was primarily because of its applicant-driven and centrally-managed character and the long list of eligible countries.
6. ORET transactions played a limited role in facilitating market access for Dutch exporters and complementing Dutch economic diplomacy efforts to strengthen bilateral economic ties.
7. The official procurement regime of ORET was not the decisive factor for what happened in practice in terms of the contestability of the tendering procedures, the Dutch content realised and the price/quality ratio of the transactions.

Lessons for Future Infrastructure Instruments

1. If the goal is to enhance the effectiveness of the infrastructure programme, then strengthen the focus on public infrastructure where the Dutch funding is additional and supportive of poverty reduction. This could be expressed in the goals, the selection and appraisal criteria of applications and the list of eligible developing countries.
2. Enhance the successor programme's efficiency and the effectiveness of transactions by inserting better checks and balances in the selection process, the management and the implementation of the programme, and by dropping certain conditions while strengthening others.
3. Boost the value for money in the financing modalities and reinforce the financial sustainability of transactions by allowing more bespoke solutions within a transparent policy framework.



Summary and Findings

Summary

ORET in a Nutshell

The Development Related Export Transactions program (ORET, the Dutch acronym for *Ontwikkelings-Relevante Export Transacties*) is a subsidy facility funded by the Ministry of Foreign Affairs since 1979. The ORET program saw its official goals evolve and adapt to the changing views and political preferences of subsequent governments on development cooperation and private sector development. Policy changes in the period 1999-2007 introduced adjustments to the programme's objectives, the list of eligible countries, the screening criteria for applications, the procurement procedures, subsidy percentages, minimum content of Dutch goods and services and options to enhance sustainability. After 2005, the main objective of ORET shifted from the promotion of development and employment creation to the promotion of sustainable economic development and improvement of the business climate in developing countries.

ORET supported commercially non-viable investments (transactions) in public infrastructure in developing countries in diverse areas such as roads, harbours, bridges, drinking water plants, public transport, hospitals and education institutes. ORET co-financed 35% (for non-LDCs) to 50% (for LDCs) of the costs of a transaction, up to a ceiling of EUR 45 million per transaction. It combined ORET grants with non-grant funds in a mixed credit programme. Recipient governments had to arrange the non-grant funding themselves from commercial loans, their own budget resources or other donors. This format leveraged the ORET grants. ORET facilitated this co-financing by paying from the grant a part of the one-off finance costs to acquire and insure the commercial loan. For a brief period in the 80s, ORET became a concessional loan programme in which the Netherlands Investment Bank (NIO) provided recipients with long-term soft loans for the full amount of the transaction. This made commercial export credits and credit insurance against the risk of non-payment redundant. It saved recipients bank fees and credit insurance premiums but lost the leveraging effect of the ODA grants. However, ORET became oversubscribed quickly, so in 1990 it reverted back to being a mixed credit programme.

The procurement regime of ORET was always a contentious issue. The Dutch business sector insisted on tying, expecting maximum return in export orders whereas the development community emphasised untying and maximising development impact (see Text Box 1). ORET started as a fully tied-aid program, accessible exclusively to Dutch applicants, and remained thus for a long time. Later recipient countries could choose a tender procedure in accordance with their own procurement legislation. The practice for ORET in non-LDCs remained direct award to the Dutch company that submitted the application. ORET was closed for LDCs in October 2001 following the OECD recommendation to untie aid for this category. In 2005 the programme was reopened for LDCs as an untied instrument, but international competitive bidding (ICB) was not prescribed for LDCs until May 2006.

Text box 1 *Serving Two Objectives with One Instrument*

Throughout its existence ORET always had two objectives: i. enhancing development in recipient developing countries; ii. promoting Dutch exports. Development and export promotion of Dutch companies are two separate policy objectives that will not necessarily coincide, may conflict and may require their own dedicated approach. For political reasons and to involve the Dutch business sector more closely in development cooperation, the two objectives were merged in the implementation of ORET. The Ministry sought to realise the dual objective via eligibility criteria for applicants companies and binding the procurement through minimum Dutch content rules for transactions in non-LDCs. Usually a Dutch company was the initiator, even in untied transactions for LDCs. Activities were funded from the development cooperation budget because the grants were considered to be ODA. Although Dutch export promotion was abolished as an official goal in 2005, ORET implicitly retained the two objectives. The Netherlands was not unique in its approach as can be seen when comparing the divergence between official policy and practice of other donors. From the economic literature it is known that tying aid can have negative effects for recipient countries as it may lead to higher prices and sub-optimal allocation of resources. The effectiveness of tying aid for export promotion from donor countries has also been questioned. This report assesses the results of ORET in relation to both objectives.

ORET was managed by several implementing agencies, i.e. the Ministries of Foreign and Economic Affairs together, FMO and ORET.nl. They all employed a pipe-line approach to assess applications from companies and allocated funding on a first-come, first-served basis. ORET was closed for new applications in August 2007. It was succeeded in 2009 by a new (untied) financing facility named ORIO, which in turn was closed in April 2014. In June 2015 its successor DRIVE was opened. At the start of 2014, 46 ORET transactions were still active. The last ORET transaction is expected to be completed in 2017.

Purpose and Scope of the Evaluation

This evaluation assesses the results achieved by ORET and the extent to which the programme has reached its stated objectives. In particular it accounts for ORET's functioning in the period 2007-2012 and the resources (financial and otherwise) used. It also aims to learn lessons that could be applied to other Dutch public infrastructure investment programs and private sector development policies in developing countries, such as the ORIO projects still in the pipeline, its successor programme DRIVE and the Dutch Good Growth Fund (DGGF).

In the evaluation period 2007-2012, 86 ORET transactions were completed. Most of them were initiated after 2000 when FMO was managing the programme. The completed transactions covered ten LDCs and 16 non-LDCs and represented a value of EUR 1183 million. In total they received a grant amount of EUR 528 million and were implemented by 38 companies. The 53 active transactions (still ongoing on 1 January 2013) are being implemented by 31 companies, cover 15 LDCs and 12 non-LDCs and add up to a total

transaction amount of EUR 968 million. Together the active transactions are expected to receive a total grant amount of EUR 409 million over their lifetime. Combining the completed and active portfolio, we are dealing with 139 transactions. Due to a certain overlap in coverage, they are implemented in 20 LDCs and 20 non-LDCs by 56 companies. The total grant amount that will have been spent on all 139 transactions on completion of the last one around 2017 is expected to be approximately EUR 936 million and may result in investments in public infrastructure worth EUR 2090 million.

The combined ORET portfolio was concentrated in certain countries and companies. Four of the 40 recipients received in total more than EUR 50 million each (Ghana, Tanzania, China and Sri Lanka) while 13 obtained more than EUR 20 million. A similar concentration occured on the part of the predominantly Dutch applicants: 24 of the 56 companies were re-users of ORET, sometimes in the same country (Ghana, Tanzania and China). The sectors with major re-users were drinking water and sanitation, health care, transport, shipbuilding, and wet and dry infrastructure, the mainstay of ORET. The drinking water sector became even more popular after introduction of the Water Facility in ORET in 2005. Most re-users of ORET were relatively large Dutch multinational companies, often already active in the developing country markets.

The main research questions of this evaluation are focused on:

i. the relevance and effectiveness of ORET in enhancing sustainable economic development in recipient countries and the success and failure factors of the public infrastructure investments;
ii. ORET's function in mobilising finance for socio-economic infrastructure and complementing other Dutch foreign policy instruments;
iii. its role in facilitating market access for Dutch companies and promoting durable trade and/or investment relations; and
iv. the efficiency of the programme's management and the supervision by the Ministry.

To answer these and more specific questions, the evaluation combined qualitative research based on the study of relevant documents of the programme and its transactions plus interviews with stakeholders, with a quantitative analysis of the transactions in the research period. The quantative analysis was based on a portfolio review of all transactions including rejected applications, a survey of successful and rejected applicants, and 13 case studies in seven recipient countries. A case study could consist of more related ORET transactions such as the four bus transactions to Ghana. The 13 case studies covered 24 completed transactions. This sample of transactions offers a good cross-section of beneficary countries, sectors and applicants. Four of the 13 case studies included surveys of end users and beneficiaries. The case studies were visited on site, researched and scored on various dimensions of the regular DAC evaluation criteria (Efficiency, Effectiveness, Impact, Relevance, Sustainability). This was supplemented by an assessment of the criteria Additionality and Policy Coherence.

Given the data limitations and the relatively large number of ORET-transactions, this evaluation assesses the overall development contribution of ORET and answers the first and third main research questions primarily on the basis of the results of the 13 case studies.

Findings

Relevance and Effectiveness of ORET

1. *ORET has addressed important obstacles for development by co-financing the construction and rehabilitation of public infrastructure in developing countries. Over time ORET evolved from a programme of mere delivery of capital goods from the Netherlands to a programme offering comprehensive infrastructure service packages that were also financially attractive for recipient governments.*

As the largest Dutch programme within the Dutch private sector development policy, ORET has financed numerous activities in many sectors, generally with a considerable development return on investment. ORET transactions were generally well developed and implemented in an efficient manner. Most transactions were reasonably effective. Often independently verified information was, however, only available on the results under direct control of the supplier (outputs) and not on the intermediate effects that those outputs had on the end users and intended beneficiaries (outcomes).

The quality of the delivered goods and the constructed works was good to very good. In some cases Dutch companies supplied unique custom-built goods. Often that was not the case nor was that needed. Because of their limited size, most transactions were rather straightforward and could also have been executed by competitors from other countries. However, ORET was an an attractive and comprehensive package to recipient countries for the following reasons: i. the quality of the goods; ii. the reliable delivery of the applicant; iii. the concessionality of the financing; and iv. various options to enhance the sustainability of the transaction for a longer period.

2. *As a result of the 2005 policy shift in which the ORET objectives shifted towards strengthening sustainable economic development, the effect of the programme as a whole on poverty reduction was reduced even though this shift was mostly in line with the priorities recipient governments expressed in the applications.*

Applicants in all transactions had to include a statement of priority from the recipient government or line ministry in their application. The findings of the case studies confirm that the underlying ORET transactions responded to situations that required attention. They were regarded a priority by the recipients and were to our knowledge not supply-driven by the applicants. The evaluators have been unable to establish whether the ORET transactions responded to the highest development priority of a recipient or financed by contracting loans at the expense of other development priorities.

With a few exceptions, the sampled ORET transactions contributed to the improvement of socio-economic infrastructure in the recipient countries. They adequately enhanced the use of the infrastructure by the intended beneficiaries and yielded sufficient long-term benefits to sustainable economic development and the enabling environment for the private sector. Transactions in the field of utilities and 'hard' infrastructure contributed more to sustainable economic development and the enabling environment for the private sector. Within the studied timeframe the evaluators have been unable to establish that there were much

trickle-down effects on poverty reduction. Other transactions in areas such as health, education and drinking water had a stronger direct effect on poverty reduction. The effect of most of the sampled ORET transactions on the poor and women was neutral. Some transactions did have benefits for the poor and women, either as the result of explicit design or by serendipity. Because alternative, less-concessional financing sources were available for some transactions in the group of transactions aiming at sustainable economic development, the criterion of commercial non-viability was not applied rigorously. Most of the sampled transactions contributed moderately to employment creation in the recipient countries.

Important reasons for a reduced focus on poverty reduction lie in the changes in the assessment criteria after 2005 and because of the lack of competition between applications in terms of development relevance. Grants were allocated to applications thad had met the minimum criteria on a 'first-come, first-served' basis. This combination of factors resulted in a concentration of funds in a limited number of countries that were not always the poorest of the ORET-eligible countries, and also included China. The ensuing spending results never gave the supervising Ministry reason for a course correction. Determined efforts to enhance the share of LDCs in ORET after its reopening for this group in 2005 did pay off, in both the number of applications and the size of commitments and disbursements. A limited number of large transactions in Tanzania, Mozambique, Bangladesh, Angola, Sudan, Ethiopia and the Gambia which mainly focused on sustainable economic development, were responsible for the larger LDC share in the total grant sum.

3. *Although the increasing inclusion of technical assistance, maintenance and capacity building for clients after 2005 clearly improved the sustainability of ORET transactions, particularly financial sustainability remains a challenge.*

Two distinguishing features of ORET that were enhanced over time were the strengthening of the technical sustainability of transactions and the institutional sustainability of their clients. The introduction of a provision in 2005 that offered more grant funds for a longer term for these purposes increased the number of applications that included additional technical assistance and maintenance. Of all 139 transactions, 107 transactions included some form of technical assistance and maintenance. The use of this new provision was, however, directed more towards transactions in non-LDCs than to transactions in LDCs even though here prima facie a higher need would be expected. The effects of the technical and institutional support of end users in the sampled transactions were sufficient to reasonably positive. A few transactions such as the navigation vessels Damen supplied to Indonesia and the buses VDL supplied to Ghana, excelled in terms of local assembly and technology transfer, and had broader effects on the industrial sectors in the recipient countries.

Strengthening the institutional capacity of the client as part of the ORET transaction has supported a smoother implementation of the transactions. This is illustrated by the bus project in Ghana, which even included financing to hire a Dutch director for the newly created public transport company for six years and for strengthening the management of the company. All the case studies emphasise the continuous challenge for the clients and the recipient governments to instil a culture of maintenance and sustain the transactions.

The case studies confirm the importance of the type of contract between the supplying company and the client for the success of the underlying transaction. Turnkey contracts, which imply that the contractor has an obligation to hand over a fully functioning infrastructural service and to train its staff in its operation and maintenance, have worked best.

The financial sustainability of most ORET transactions remains doubtful. It is reflected in the limited ability to generate revenue or lack of hard government commitments to allocate budgets to finance the recurrent costs of operation, maintenance and repairs. All depends on the political setting. Does it allow the client to charge and actually collect user fees in order for the operation to be profitable and to finance – at least – the costs of operation and maintenance, or not? The alternative method is that line ministries give priority to the transaction in budget allocations to finance the recurrent cost and replacement of worn-out equipment. In only a few transactions was part of the capital costs (interest and amortisation of the foreign loan) recovered from user fees rather than from the general government budget. This makes it difficult to break the dependency of public infrastructure financing on donor funding. It is somewhat ironic that various ORET transactions rehabilitated and expanded earlier investments in public utilities funded by other donors in the past.

Mobilising Finance for Socio-Economic Infrastructure and Coherence with Other Dutch Policies

4. *Although combining ORET grants with non-grant financing had a positive leveraging effect, recipients faced high one-off finance costs to secure and insure commercial loans. By and large ORET funding was additional but had only a modest catalytic effect on follow-up investments.*

The funding package of most sampled ORET transactions was attractive for recipients. By and large the funding was additional, implying that most transactions as such would not have been financed and realised in the absence of the ORET grant. Recipient countries continously scoured the donor fund market for the most attractive packages on offer to finance their socio-economic infrastructure needs. Their emphasis was usually on the lowest initial investment cost rather than on the optimal cost for providing the infrastructural service throughout the lifetime of the capital good or infrastructure works. Although alternative funding was available for most ORET transactions, it is uncertain whether such funds would have been provided at similar concessional terms to those offered by ORET. A number of projects would also have been implemented without the ORET support but probably at a slower pace or at a smaller scale as was the case, for example for the drinking water plants. The grant condition of 50% for drinking water projects in non-LDCs was generous. In terms of allocated funds, it resulted in the intended sector preference for one sector, especially in Ghana.

ORET grants have been leveraged by a factor 1:2 or 1:3 through the combination with commercial export credits, other donor funds or the recipient's own budget funds. This has extended the reach of the programme, although this should not be overrated when taking the modest size of most transactions into account. The median transaction amount is EUR 11.8 million whereas the transaction amounts of more than 25% of the transactions in the portfolio are below EUR 4.5 million. Though long-term export credits were the dominant form of non-grant funding, they were not the only source. LDCs in particular drew on other

sources, including their own budget, which could sometimes result in delays in payment and implementation. In the case of long-term bank loans, insurance against the credit risk of non-payment was often a prerequisite for recipients to secure access to these funds. This funding came at the price of considerable one-off finance costs (bank fees and the insurance premiums of Atradius DSB, not including interest and amortisation payments). The evaluators are unable to say whether the insurance coverage resulted in lower interest rates on the insured loans compared to the interest rates on non-insured loans, or provided access to capital that would have otherwise been unavailable. This is due to a lack of information on the contract details of these loans and because it is impossible to check against a non-existing counterfactual for the transactions. The evaluators did find some variance in the one-off finance costs of these transactions that is not easily explained by differences in risk factors associated with the ORET-related loans.

For all 139 transactions (88 were insured by Atradius DSB) an amount of EUR 92 million was spent on one-off finance costs (total insurance costs plus bank fees). These cost were financed from the total available grant amount of EUR 936 million. In total, EUR 1154 million of non-grant funding from various sources was arranged, resulting in a total transaction amount of EUR 2090 million. The credit insurance costs, which formed the bulk of both the insurance and the one-off finance costs, seem relatively high. This impression is reinforced when considering that over a period of 23 years Atradius DSB had to make only one damage payment arising from the non-payment of the debt service (interest and amortisation payments) on a loan for an ORET transaction in Ghana. This payment of 9,956,862 and the still outstanding debt were cancelled in a multilateral debt restructuring in 2004, but subsequently fully charged against the budget for development cooperation. Only in a negligible number of transactions, did construction project or capital goods insurance policies result in net damages for a total amount of EUR 243,982 charged to ECI. In certain sampled transactions, the high one-off finance costs diverted grant funds from development goals such as the maintenance or purchase of spare parts for long periods. With hindsight, providing ORET related export credits and insuring them against the risk of non-payment in this period were attractive and almost risk-free propositions for the financing banks and for the state insurance agency acting on behalf of the Ministry of Finance. In addition, the evaluators do not understand why Atradius DSB, acting on behalf of the State, even after ORET approved the transactions, would still charge the exporters a 'risk' premium on the grant amount against the risk that ORET would not disburse the grant. On top of that, ORET used the same grant to pay 75% of this risk premium.

The catalytic effect of transactions in stimulating follow-up investments in other sectors or the region varied from sufficient to modest. This concurs with the modest scores for the contribution of ORET transactions to sustainable economic development and to the enabling environment for private sector development. ORET transactions usually addressed one limiting constraint for companies or investors, such as drinking water, public transport, power generation or logistics, and therefore did not directly trigger other investments but they did play their (modest) positive role in the larger picture.

5. *ORET remained a somewhat isolated programme that was hardly complementary to other Dutch aid and private sector development activities. This was primarily because of its applicant-driven and centrally-managed character and the long list of eligible countries.*

In general ORET showed limited synergy with the Dutch aid programme in partner countries, whether with either the chosen priority sectors in the bilateral aid programme or with other centrally-managed private sector development instruments, also available to a broader category of recipients. The coherence and effectiveness of transactions were enhanced when the Dutch embassy in a developing country played a pro-active role in the acquisition of ORET applications as was the case in Ghana, even if the transactions did not fit in the bilateral sector programme.

ORET had two supportive instruments to facilitate its transactions: at the front of the pipeline the PESP programme of the Ministry of Economic Affairs to co-finance the cost of a feasibility study and at the back Atradius DSB's insurance coverage of export credits against the risk of non-payment to enable these commercial loans to be secured. Based on the sampled transactions, the evaluators conclude that the combination of supportive instruments was helpful in enabling ORET transactions but was not always necessary for either the exporter or the recipient.

Facilitating Market Access for Dutch Companies

6. *ORET transactions played a limited role in facilitating market access for Dutch exporters and complementing Dutch economic diplomacy efforts to strengthen bilateral economic ties.*

The majority of ORET transactions were executed by a limited group of Dutch companies (primarily large ones) that did not need ORET support to enter the market but where the concessional funds were necessary to enable the specific ORET transactions. Having a local presence or knowledge of the country was actually a bonus in implementing complicated infrastructure transactions, especially in difficult circumstances with poorly functioning governments.

ORET transactions also played a limited role in complementing Dutch economic diplomacy efforts to strengthen bilateral economic ties. Reason for this was the limited overlap between the much smaller group of trade priority countries of the Ministry of Economic Affairs and the much larger group of ORET-eligible countries. In addition, the ORET amounts were very modest in relation to the regular bilateral trade and investment flows. The possibility of dispersing the relatively modest grant amounts over so many eligible countries (66) and the lack of criteria for the allocation of funds over countries or sectors, made it an impossible task to steer the transactions towards priorities from the outset.

7. *The official procurement regime of ORET was not the decisive factor for what happened in practice in terms of the contestability of the tendering procedures, the Dutch content realised and the price/quality ratio of the transactions.*

The overview of the procurement regimes in all 139 transactions is not clear-cut with international competitive bidding (ICB) in LDCs and direct award to Dutch companies in non-LDCs. Over time, the tying rules also changed. The formal untying of ORET for LDCs led

to more foreign companies winning the international tenders (ICB) that LDCs organised for ORET transactions, i.e. of the 43 transactions nine were won by foreign companies and one by a special purpose company (solely incorporated in the Netherlands to become eligible for ORET). Overall, the number of winning foreign companies remains quite modest in both groups of beneficiary countries (LDCs and non-LDCs). Of the total of 139 transactions, only nine were won by foreign companies (in nine LDCs) and six by special purpose companies (one in a LDC and six in non-LDCs).

Of the 43 transactions in LDCs, 18 were tendered by ICB and 25 by direct award. In those 18 ICB transactions, Dutch companies won 11 tenders. In 69 of the 96 applications in non-LDCs, the transaction was directly awarded to a Dutch company including three special purpose companies. Clients in non-LDCs organised an ICB in 27 transactions, which ORET permitted if national procurement legislation insisted. The fact that Dutch companies won 26 of the 27 ICBs is notable. It says something about the contestability of the ICB-procedure in practice though ORET does not seem to deviate very much from the practices of the competing programmes of other donors (see paragraph 3.5.2 and annex 7). Those ICB-procedures ended up with a higher Dutch content than was the case with the direct award transactions. The ORET 2006 Regulation prescribed a screening of the ICB-process by the tendering authority of the recipient. It did not instruct ORET.nl to provide assistance in the management of the ICB process and the prequalification of bidders. Little information was found on where and how ORET.nl provided actual assistance in this regard. The prescribed subsequent screening of the quality of an ICB seems to have been done purely as a formality. In very few ICBs did the screening process result in a rejection of the outcome.

Only a few well-organised countries (such as Ghana) were able to take ownership of the tendering process and the negotiations with contractors, sometimes by recruiting their own international price consultant. In most sampled transactions the price consultant hired by ORET considered the charged prices to be market compatible. In several transactions, the prices of certain goods or works were adjusted after the mandatory price check or scrutiny by the advisory committee of ORET.nl. In the majority of the case studies, recipients regarded the supplied works, equipment and services as relatively expensive but of better quality than those from alternative suppliers. In some cases, meeting the required minimum Dutch content was a real challenge for applicants, especially when there were only a few Dutch subcontractors for certain *inputs*. In a few applications, ORET-eligibility conditions for tied transactions were circumvented by special purpose companies.
In the case of some tied transactions both factors triggered creative accounting on the origin of certain cost items and components so that the minimum Dutch content rule could be met.

The evaluators have been unable to establish that the ICB-procedures applied automatically delivered the best development outcome for the best price. When also taking into account the bilateral practices of other donors, the evaluators conclude that donors do not compete in a free market with undistorted competition to develop and finance socio-economic infrastructure in developing countries. Recipient governments recognise this and exploit it. What ultimately counts are the checks and balances that programmes have in place and actually apply. They determine the most favourable development outcome at the best price with the optimal finance

offer matching the needs of recipients, and not the official rethoric of the (un)tying regime (see our suggestions in the next section).

Programme Management and Supervision

8. *Programme management and institutional arrangements were adequately implemented for the ORET facility. The implementing agencies were well-organised in the assessment of applications but less so in monitoring transactions and evaluating results and were not encouraged by the Ministry to improve their activities either.*

Within the agreed parameters of the management contracts, the programme was well managed, first by FMO from 2002-2006 and after 2007 by the ORET.nl consortium. ORET had a good reputation among the applicants and the clients/recipient governments. ORET procedures in the application and appraisal phases were generally considered to be sound and reasonable by both applicants and recipients. Most transactions were realised within the agreed period and the agreed budget. The flexibility in the triangle between the applicant company as the driving force, the recipient government and the administrator of ORET was one of the key success factors in both the assessment and implementation of most ORET transactions.

ORET.nl showed a more hands-off approach in preparing transactions as instructed by the Ministry early 2007. According to the Ministry, this was done to avoid a conflict of interest in the later appraisal of applications and in the decision making process and partly for the pragmatic reason of ORET.nl being swamped by the existing workload and new applications. Its approach to administering a subsidy facility was different from FMO's which was to develop transactions together with the applicant and the client. In some grant agreements, the FMO approach, however, resulted in too detailed policy conditions. Though the conditionality in the grant agreements was well-intentioned, it overestimated the influence of ORET in influencing politically sensitive issues. This concerned, for example, the level of user charges and the willingness or the ability of line ministries to finance the recurrent cost and make parallel investments in the staff required by the client organisations or in infrastructure such as dedicated bus lanes.

On the one hand the design process of applications at the time of ORET.nl could have benefitted from a more collaborative development of applications with the applicant and the end-user or client. In some transactions the *due diligence* of the end user/client and the applicant failed and led to later problems in implementation. The policy of ORET.nl on independent supervision of construction works lacked clarity and consistency. It was unclear when it was decided to hire a supervisor, separate the supervision contract from the main works contract or combine it with technical assistance and training. Neither the complexity of the transaction, the experience of the applicant nor the knowledge of the end user and the recipient country give consistent indications. On the other hand, having an independent advisory committee of recognised experts from various constituencies was very helpful in strengthening the quality of the decision-making process of ORET.nl.

ORET had insufficient capacity to collect monitoring and evaluation (M&E) data on outcomes and was too dependent on data provided by the applicants. In general there was

little transparancy on how ORET applications were selected and funds allocated and disbursed since the annual reports and other overviews of both FMO and ORET.nl were not publicly available. Information was only provided when Parliament expressely asked for it. The lack of verifiable data on outcomes and the lack of electronically accessible dossiers did not support the learning cycle within ORET. This was partly the result of a lack of supervision by the Ministry, although at the time the M&E policy at the Ministry for private sector development at large was still underdeveloped. The recommendation from the previous ORET evaluation in this area was primarily implemented by making the M&E instructions for ORIO stricter. The problem was raised several times in the regular policy dialogue between ORET.nl and the Ministry but never addressed by the Ministry, notwithstanding the substantial disbursements made after 2007 and ORET remaining by far the largest programme within the Dutch private sector development policies.

Lessons for Future Infrastructure Instruments

Following these general findings and other conclusions in the evaluation report, IOB would like to offer some suggestions to consider in the design of the successor programme DRIVE and other PSD programmes related to public infrastructure in developing countries.
IOB bases these suggestions on the assumption that the Netherlands wishes to maintain a bilateral and centrally-managed public infrastructure programme in developing countries for the purpose of mobilising the infrastructure development potential of its own business sector in certain niches in order to keep broad-based political support for development cooperation domestically.

Our suggestions come down to maintaining the basic structure of ORET but IOB sees scope for further improvements in a successor programme. While acknowledging all current interests and capabilities, IOB proposes to make them fully transparent. IOB recommends introducing some new checks and balances to achieve more value for money and more bespoke financing and technical assistance modalities geared towards the long-term requirements of infrastructure focused on poverty reduction. These policy suggestions are made with a view to further strengthening the development objective and enhancing the poverty reduction relevance of a successor programme. In addition, the suggested checks and balances would improve the price/quality ratio of individual transactions and reinforce the programme's accountability to stakeholders and its ability to learn and apply lessons of evaluations in the whole project cycle.

With these considerations in mind, IOB recommends the following changes and additions for the successor facility:

1. *If the goal is to enhance the effectiveness of the infrastructure programme, then strengthen the focus on public infrastructure where the Dutch funding is additional and supportive of poverty reduction. This could be expressed in the goals, the selection and appraisal criteria of applications and the list of eligible developing countries.*

- **One overarching goal.** The Netherlands could distinguish itself from other donors by offering a comprehensive approach to developing and co-financing *public infrastructure*

where the Dutch funding is additional to other available financial sources and structured on a needs basis. This would be especially the case for: i. poorer developing countries in which governments have less revenue and less access to commercial sources; ii. the type of public infrastructure that generates less or no own revenue through user fees but does have a strong direct effect on poverty reduction. To achieve this, instead of implicitly having two objectives, a bilateral infrastructure programme should have a single overarching goal: the development of public infrastructure that has a strong poverty reduction focus and that is fully owned by the recipient government. New Dutch aid instruments (such as the Dutch Good Growth Fund), introduced after the closure of ORET in other clusters of the broader PSD policy of the Netherlands, are now available for that purpose. They are better equipped to enable private sector development and the more implicit objective of maximising the returns for the Dutch business sector (including SMEs). Though one has to recognise that some tension may arise in practice between the ownership of the recipient government and the effect on poverty reduction of an application, this could be accommodated in the selection criteria of the programme. In essence, this implies a more rigorous application in the selection process of the two OECD Consensus criteria on commercial non-viability of the application: long payback periods beyond ten years and (not or) the recipient government being unable to attract long-term commercial funding or not having access to domestic financial sources.

- **A competitive selection model.** Consider re-introducing the beauty contest selection model of the earlier ORIO version (though less complicated) to stimulate competition among applications based on their additionality and effectiveness in poverty reduction. Performing the selection process in a more transparent and public manner would increase transparency and also give guidance to prospective applicants and recipient governments. A minimum alternative could be the introduction of indicative ceilings for eligible countries throughout the entire programming period of a successor programme combined with the project identification mechanisms elaborated below.

- **Fewer eligible countries.** The additionality, poverty focus and effectiveness of a successor could be further enhanced by reducing the list of eligible countries. In doing so, the programme could take into account the development level of recipient countries, the commercial non-viability of an application, the risk of distorting competition with ODA-funds and the need for applicants, implementing agency and Dutch embassies to have in-depth knowledge of the local context so that the transaction will be effective.

- **Focus on poorer countries and larger transactions.** In order to enhance the development impact, these considerations would translate in:
  i. An emphasis on poorer countries (LDCs and a group of LICs and LMICs to be defined but that will be more limited and include the current aid partner countries). Even among the group of LDCs a further selection could be considered, since being an LDC does not automatically qualify a country to be a partner country of the Netherlands;
  ii. Priority for public infrastructure that is additional, has a greater direct effect on poverty reduction and avoids market distortion with ODA-funds; and

iii. Introduction of a minimum transaction amount, in addition to the current ceiling. Larger transaction amounts could increase the leverage with recipient governments on sensitive policy matters, such as user fees, transparent billing and revenue collection. Larger transactions would also justify the higher cost of introducing a better M&E system.

2. *Enhance the successor programme's efficiency and the effectiveness of transactions by inserting better checks and balances in the selection process, the management and the implementation of the programme, and by dropping certain conditions while strengthening others.*

- **Improve the ICB process.** Respecting earlier commitments of the Netherlands in the OECD/DAC, IOB suggests maintaining the fully untied nature of a successor programme of ORET for eligible LDCs but to improve the oversight of the international tendering process by the implementing agency. In addition, technical assistance could be provided to tendering administrations where needed. This would enhance the fairness, competition and transparency of the international procurement procedures.

- **Checks and balances for more value for money.** At the same time one should recognise the value of having a driving force behind an application from the supplying company that has a commercial interest and a reputation at stake in delivering longer-lasting results. For eligible non-LDCs, we therefore suggest keeping their national procurement rules as paramount and, if allowed within those rules, to maintain the tied status for non-LDCs by stipulating that applicants must be Dutch companies. This would entail scrutinising special-purpose companies on their domestic substance and presence in the Netherlands before they can be considered eligible applicants. Rather than making a successor programme fully untied by introducing a superficial ICB procedure in name only, we propose enhancing its value for money by introducing new checks and balances in case of non-LDCs and better monitoring and evaluation procedures. From a dedicated budget, the programme could offer LDCs technical support in the ICB process. Eligible non-LDCs could be offered co-funding to hire their own price consultant to support contract negotiations on price/quality with the applicant.

- **Address procurement-related risks.** IOB recommends that a successor programme reduce procurement-related risks by having a prior review of the contracts with the highest risk of potential abuse and random independent post procurement reviews. In addition, a regular review could be held of the efficiency of the procurement process and risk-mitigating procedures to stimulate competition, efficiency, transparency, equity and domestic market development through local subcontracting. More use of national procurement systems of recipients and allowance for domestic preference for developing domestic supply capability could be made, depending on how much these systems diverge from the World Bank guidelines on international procurement.

- **Drop the minimum content rules in non-LDCs.** The minimum Dutch content rule of sourcing at least 50% of the *inputs* from the Netherlands for transactions in non-LDCs can be dropped. This rule has become superfluous, has triggered creative accounting, may have increased cost in sectors where only a few Dutch suppliers of required *inputs*

were present and has hampered cheaper local subcontracting. More local subcontracting in the recipient country would enlarge the direct and indirect employment effects. The programme could go a step further and consider ways of rewarding local subcontracting, e.g. by a preferential pricing, provided that minimum standards for transparent procurement are met.

- **Stricter *due diligence* of applicants and clients.** IOB suggests a stricter *due diligence* testing of applicant companies and bidders in both the ICB procedure and the tied procedure. The success of a complex infrastructure transaction often depends on the presence of adequate capacity and experience in the implementing company. Applicants will preferably be familiar with the local context or, even better, have a local presence. This will also enhance the likelihood of the investment being sustainable for longer. The implementing company should be made the primary responsible for spare parts delivery, technical assistance and training of staff (see below).

- **Joint development.** IOB advises developing more transactions jointly with the applicant, the client and the implementing agency as was done by FMO. For the appraisal of applications, IOB recommends that the implementing agency always makes a prior field visit in order to get a good idea of the local context and to check the institutional capacity of the client/end user. More downstream involvement of the implementing agency in the type of commercial contracts (preferably of a turnkey nature) in both LDCs and non-LDCs would also contribute to more effective transactions.

- **Stricter separation of roles in implementation and supervision.** IOB recommends a stricter separation of roles and responsibilities, especially in the case of supervision contracts of complex infrastructural works. A successor programme could develop a clear policy framework for the supervision of the implementation of transactions, based on a risk assessment of the complexity of a transaction. A recruited supervisor should work solely for the client organisation and preferably have a local counterpart at the client or line ministry. Contracts for supervision work should always be separate from the contract for the works and not be mixed with technical assistance and capacity building activities within the transaction.

- **Enhance sustainability.** Technical assistance, delivery of spare parts and capacity building of the client should become a mandatory part of any transaction, with the option for the client to have these at their disposal for a longer term after completion of the transaction. It should be the responsibility of the applicant company to enhance sustainability and instil a culture of proper maintenance within the client organisation.

3. *Boost the value for money in the financing modalities and reinforce the financial sustainability of transactions by allowing more bespoke solutions within a transparent policy framework.*

- **Modalities for non-grant financing and export credit insurance.** The Netherlands could consider reviving the previous function of the Netherlands Investment Bank (NIO) of providing long-term concessional loans to eligible developing countries for this type of public infrastructure. Doing so would in-source the non-grant funding just as the

management of ORIO and now DRIVE has been in-sourced at RVO. A revived NIO could work in tandem with RVO as the in-house financier. The NIO, with the backing of the Dutch State, could attract the required long-term finance at very favourable conditions for the foreseeable future, for on-ward lending to eligible developing countries. In fact this would imply a return to the LCL-funding arrangement for ORET at the end of the 1980s and provide a much better match with the funding needs of poor countries for public infrastructure, especially in case of infrastructure with a strong poverty reduction focus. If the NIO were to extend concessional loans for the full amounts of transactions, the relatively expensive one-off finance costs would become redundant. The leveraging effect of ORET grants in a mixed credit format would be lost in this option. This loss could be accommodated by a larger loan budget where the net present value of these loans could be equated to the intended grant amount for DRIVE (in line with the new ODA reporting rules).

- **Tailor-made financial solutions.** In-sourcing the long-term finance would create more opportunities for bespoke financing solutions. The concessionality of such loans (expressed as the capitalised outcome of the grace period, the length of the disbursement period, the repayment period and the charged interest rate) could be attuned to the income classification of the recipient, the poverty focus of the transaction, and the required pay-back period. These aspects could also be linked to the ability of the intended infrastructure to produce a cash flow of user fees or to the recipient government's capacity to allocate its own budget resources for operation and maintenance. In this respect the Ministry should take account of recent changes in the reporting rules of the DAC for concessional ODA-loans. Under the new rules, softer concessional loans to poorer countries are rewarded with larger ODA-credits than less concessional loans to richer countries.

- **Make it cheaper and keep it simple.** If in-sourcing of the lending is politically unfeasible, then a fall-back would be to keep the current mixed credit format with its leveraging effect of ORET grants but enhance its cost-effectiveness. The evaluation shows that the insured commercial export credits related to ORET transactions and guaranteed by recipient governments have behaved as a 'special' risk category. The almost negligible default risk is good grounds for having a conversation with the Ministry of Finance on the current risk classification of ORET-related loans and the level of the premiums now charged for their credit insurance. One option could be proposing a different treatment by the OECD Consensus of these mixed credits to sovereign borrowers. Another could be the above-mentioned insourcing. In addition, to avoid enabling commercial loans as part of a mixed credits programme to recipient countries which are totally uncreditworthy, IOB advises keeping the financing modalities as simple as possible and not engaging in too much financial engineering and accumulation of various financial instruments. Debt sustainability of the recipient should remain a prerequisite of any infrastructure programme. If the mixed credit format is maintained, the ORET grant can still be reported to the DAC as ODA for the full amount. It would not affect the ODA performance of the programme. The exceptions that are embodied in the commercial loans for the full transaction amount of two ORET

transactions in Sri Lanka that were softened by paying the interest from the ORET grant, should not be imitated as the funding standard in a successor programme. The most important reason for not doing so is the much higher one-off finance costs for recipients, especially for the credit insurance premium.



1

Introduction

1.1 Purpose and Scope of the ORET Evaluation

During its lifetime the ORET facility was evaluated several times, the most recent being in 2006 and covering the period 1999-2004 (Berenschot, SEOR, Ecolas, 2006). Almost concomitantly, a joint evaluation (NCSTE and IOB, 2006) was undertaken by the Chinese Centre for Science and Technology Evaluation (NCSTE) and the Policy and Operations Evaluation Department (IOB) of all 84 ORET/MILIEV transactions completed between 1991 and 2003 in China. The 2006 Order of Periodic Evaluations of the Netherlands prescribes that all government policies be evaluated periodically and at least once every seven years (Ministry of Finance, 2012). The present evaluation was planned as part of this multi-annual evaluation programming of the Ministry. It assesses the results achieved by the ORET-programme in the period 2007-2012 and the extent to which the programme achieved its objectives. The Terms of Reference (IOB, 2013) mention two specific purposes for the evaluation:

i. *Account* for the functioning of the ORET-programme in the period 2007-2012 and the resources (financial and otherwise) used for the implementation of the programme.

ii. *Learn* lessons from the functioning and effects of ORET that could be used to improve policy implementation for the remainder of ORET, and other public infrastructure investment programmes and private sector development policies in developing countries such as ORIO and the Dutch Good Growth Fund.

In addition, this evaluation aims to assess the effects of the changes introduced in the 2006 ORET Regulation, the learning effect of earlier evaluations and whether the introduction of the successor programme ORIO in 2009 affected the implementation of ORET. Although the ORET programme has been closed for new applications since 1 August 2007, an independent evaluation is still warranted in order to evaluate the substantial resources used and the results achieved. The evaluation intends to generate lessons for the remaining implementation period of ORET, its successor programme ORIO (which closed for new applications in April 2014), and other programmes in the area of public infrastructure investments and private sector development in developing countries, such as the Dutch Good Growth Fund and the intended successor programme of ORIO: DRIVE.

The evaluation addresses key issues at two levels:
- At programme level: the development relevance and effectiveness of the ORET programme regarding the policies, needs and priorities of the recipient countries and of the Netherlands, and the efficiency of the programme’s management and procedures.
- At project/transaction level: the effectiveness of ORET transactions in meeting their own formulated objectives and their outcomes. The findings on effectiveness will enable conclusions to be drawn about whether the programme as a whole has been meeting its objectives and preconditions.

1.2 Main Research Questions and Evaluation Criteria

Text Box 1 refers to the double objectives of ORET of promoting development in developing countries and promotion of Dutch exports. In this evaluation we have attempted to disentangle the two objectives through our research questions, the evaluation criteria and the indicators in the score card for our case studies (see paragraph 1.4.3).

The central research questions of the evaluation at programme level are:

1. Has the ORET programme been relevant and effective in enhancing sustainable economic development and the enabling environment for the private sector in recipient countries? Can key success or failure factors for the programme as a whole be identified and, if so, which of these factors have played an important role in enhancing the sustainability of the investments?

2. Has ORET fulfilled a catalytic role in mobilising additional finance for socio-economic infrastructure investments and has it complemented other instruments of Dutch development cooperation or foreign economic policy?

3. How important has ORET been for Dutch companies involved in ORET transactions in terms of facilitating their access to the markets of recipient developing countries and in promoting durable trade and/or direct investment relations in recipient countries, even though this was no longer an explicit objective of the 2006 ORET Regulation?

4. How efficiently has the ORET programme been managed at programme level, how have the accepted recommendations of earlier evaluations been translated into the ORET programme and what effect has this had in practice (i.e. what has been the learning effect)?

These main questions have been broken down into sub-questions that are classified under the headings of the regular DAC/OECD evaluation criteria: Efficiency, Effectiveness, Impact, Relevance and Sustainability, supplemented by Additionality and Coherence. Where relevant and opportune, questions have been combined. The research questions are listed in greater detail in the Terms of Reference (IOB, 2013), both at the programme and transaction/project level.

The evaluation has attempted to make an independent assessment of the ORET programme at the two levels (programme and project/transaction), by applying the following definitions of the evaluation criteria mentioned above:

- *Efficiency* refers to the realisation of transaction activities in relation to time and budget, the appraisal and monitoring and evaluation of the transaction, and the cost-effectiveness of the financing package.

- *Effectiveness* relates outputs to outcomes: the extent to which the ORET programme achieved its objectives of stimulating the socio-economic infrastructure in the recipient developing country and has it contributed to increasing Dutch exports?
- *Impact* relates to effectiveness and the extent to which the long-term effects of the transactions contribute to achieving the ultimate objectives of ORET and of the individual transactions?
- *Sustainability* relates to long-term results: the extent to which the transaction/project is financially, technically and institutionally viable in the long run and what was its environmental impact?
- *Relevance* refers to the extent to which the transaction/project is in line with the policies and strategies of the recipient country?
- *Additionality* refers to whether or not the transaction/project would have been financed in the absence of the ORET grant. In addition, the *catalytic role* of the ORET grant is considered by examining the extent to which ORET mobilised additional finance for socio-economic infrastructure that would otherwise not have been created and whether or not ORET distorted domestic markets by displacing other entrepreneurs?
- *Policy coherence* refers to the extent ORET complemented or contradicted other instruments of Dutch development cooperation and foreign policy (particularly foreign economic policy) of the Netherlands?

1.3 A General Result Chain for ORET

The starting point for the evaluation framework is the (re)construction of the result chain that structures the expected ORET processes and their achieved results in a logical framework. This includes an elaboration of the theory of change at transaction level that connects the various components of the result chain, including the underlying key assumptions and contextual factors. To take account of the diversity of all 139 transactions in the ORET portfolio to be evaluated, a standard result chain for ORET was developed (see Figure 1. A General Result Chain for ORET). More detailed result chains were elaborated for the individual case studies.

Figure 1 identifies the specific relations between its components – inputs, activities, outputs, outcomes and impact – where:

- The inputs of ORET are the financial, material and human resources employed to produce the intended outputs;
- The outputs are the deliverables of the activities undertaken and the direct results of the completed ORET transaction (or of the larger project if the transaction formed a part of that), which was under the direct control of the implementing agency and the supplier;
- The outcomes of the transactions are the short-term and intermediate effects that the outputs have had on the end users (clients) and intended beneficiaries, e.g. in terms of changes in their behaviour and/or increased use of the realised public infrastructure and services; and

- The impact refers to the longer-term effects that can be attributed to the intervention or to which it has contributed such as increases in employment, economic growth and health, and less poverty in recipient countries.

In view of the large number of ORET transactions, assessing the development contribution of the ORET-programme was based on a selection of cases studies that mostly compromised related ORET transactions in a selection of recipient countries (see Annex 6). While recognising the limitations of sampling, we have selected a sample in terms of the breadth of the portfolio (regions, recipients and sectors) in order to be able to draw meaningful conclusions for the programme as a whole.

Figure 1 *A General Result Chain for ORET*

Inputs	Activities	Outputs	Outcomes	Impact/ Long-term Results
• ORET grants. • Human resources of FMO/ORET.nl. • Expertise applicant companies. • Commercial export credit loans and/ or other finances/ loans. • Export credit insurance (ECI). • Funds for feasibility studies (PESP).	• Co-financing of public investments in socio-economic infrastructure. • Delivery of capital goods, technology and infrastructure works. • Technical assistance for maintenance, training and institution building. • Spare-parts delivery.	• Roads. • Bridges. • Harbours. • Dredging. • Power plants. • Airports. • Water supply and water treatment plants. • Hospitals and medical equipment. • Transport & vehicles. • Patrol and research vessels. • Education systems. • Engineering services. • Etcetera.	• Increased use of the realised infrastructure, supplied capital goods and enhanced public services for intended beneficiaries (companies, end users, patients, students, traders or consumers). • Enhanced mobility due to improved logistics. • Increase in economic and entrepreneurial activity. • Increase in productive investments (local, FDI and joint ventures). • Quality improvements in existing production processes and public services. • Etcetera.	• Stronger and more sustainable public services. • Increase in formal employment (men/ women). • Lower transaction costs for local companies and end users (time savings, mobility). • Increase in commercially viable companies. • Increase in Dutch exports. • Durable trading relations with NL. • Sustainable economic growth. • Less poverty. • Enhanced health. • Higher life expectancy. • Etcetera.
				Sustainable development and enhanced enabling environment for private sector development

1.4 Evaluation Methodology

1.4.1 Main Research Activities

The evaluation combines qualitative research based on the study of relevant documents of the programme and transactions and interviews with stakeholders, with quantitative analysis based on a portfolio review, a survey of applicant companies, and 13 case studies consisting of 24 transactions in nine countries (four case studies involved in-depth surveys among end users and beneficiaries).

The main activities of the evaluation can be summarised as follows:

1. *Policy Reconstruction of the ORET Programme.*

The policy developments of the ORET programme were reconstructed, focusing on the period after 2002. For this purpose relevant policy documents were studied and key stakeholders in the Netherlands interviewed, among them the staff of ORET.nl, relevant staff of the Ministries of Foreign Affairs and of Economic Affairs, and many others (see annex 9 for a complete list of interviewees). Also used as inputs were the previous evaluation of the ORET programme (Berenschot, SEOR, Ecolas, 2006) and the ORET China evaluation (NCSTE and IOB, 2006).

2. *Desk study and field visits of nine ORET transactions selected for the four in-depth case studies in Ghana (seven transactions), Sudan (one transaction) and Tanzania (one transaction) that included surveys of end users and beneficiaries.*

This included assessments of the views of the suppliers and recipients on the performance of the ORET programme in general and of the transactions in particular (see the separate country reports and summaries in annex 8). Suppliers of these ORET transactions and stakeholders in the recipient countries were interviewed using a structured interview design (see the ToR, annex 5).

3. *Desk study and field visits of the other 15 ORET transactions in the sample in Tanzania (five transactions), Indonesia (three transactions), Sri Lanka (two transactions), Bangladesh (one transaction), Ghana (two transactions) and Guatemala (two transactions).*

These case studies did not involve surveys of end users but did include an assessment of the views of the recipients and suppliers on the performance of the ORET programme and the transactions. The results of all case studies have been incorporated in chapter 4 and are also summarised in annex 8. For full transparency individual case study reports will be published separately on the IOB website.

4. *Aggregating the results of the 24 case studies.*

Using a scorecard, the 24 transactions from the 13 case studies were scored independently by two or three evaluators (see paragraph 1.4.3 and annex 4 for an explanation of the scoring methodology used). After grading the 26 indicators of the evaluation criteria, results were aggregated per evaluation criterion for each of the 13 case studies (see chapter 4 for the synthesis).

5. *A company survey of all ORET applicants.*
Applicant companies of ORET transactions, both in the Netherlands and abroad, were queried in an electronic survey to elicit their views on the ORET programme in general and their transactions in particular. A selection of them was then subjected to follow-up interview using a structured interview design (see the ToR, annex 5). Results from this survey are incorporated in paragraph 3.4.

6. *Desk study of the remaining 115 transactions in a portfolio review.*
A portfolio review was done of all transaction documents available in the ORET.nl and Ministry archives. Given the limitations of this analysis and the fact that the companies' self-assessment of the results of their own transactions was not validated independently, this activity mainly focused on financial and procurement characteristics and efficiency aspects of the treatment by ORET.

7. *Analysis of a selection of rejected applications.*
A number of non-approved transactions were selected and the rejected applicants were interviewed to elicit their views on ORET and their applications. Some applicants were interviewed face-to-face about their experiences with the ORET programme and others were asked about their views via the e-survey (see paragraphs 3.1.3 and 3.3).

8. *Study of the context of the ORET programme in the Netherlands.*
In addition to the study of relevant policy documents of the ORET programme, interviews were conducted with stakeholders such as financial institutions involved in financing and insuring the non-grant part of the ORET transactions and representatives of the Dutch business community (see paragraph 3.2.7).

The results of all research activities described above were used as building blocks for the evaluation with a view to drawing well-founded conclusions about the ORET programme as a whole. Findings and conclusions and issues for future consideration are described in the concluding chapter 5 and the introductory part of this report. Information from the surveys, the desk research and the interviews with stakeholders may show different results and/or opposing views on the ORET programme in general and various aspects of the programme in particular. Where possible, data and views have been triangulated and, if warranted because of opposing views or conflicting data, reported separately in this report. The ORET transactions in this evaluation have been evaluated in accordance with the ORET regulations valid in the year their applications were submitted, i.e. 1992, 1999, 2000, 2002, 2005, 2006, 2007, or 2008.

1.4.2 Selection of the 13 Case Studies

In the evaluation period 2007-2012, 86 ORET transactions were completed. At the beginning of 2013, 53 approved transactions were still active in 20 countries covering 11 sectors.
The last ORET transactions are expected to be completed by 2017. The 86 ORET transactions completed in the period 2007-2011 covered 26 countries (ten LDCs and 16 non-LDCs). Together they had a transaction value of EUR 1183.4 million, received a grant of EUR 527.7 million and were implemented by 38 companies (among them four non-Dutch companies). From these 86 completed ORET-transactions the case studies were selected.

Taking into account the pragmatic consideration of organising the field visits efficiently, the following selection or exclusion criteria were used for the sample:

- Exclusion of the 21 ORET transactions in China[1] in view of the earlier joint evaluation;
- A preference for a sector representation and therefore a desire to achieve a cross-section of the four aggregate sectors and 12 subsectors rather than attempting to achieve a regional balance in terms of the monetary size of transactions;
- A balanced coverage among LDCs and non-LDCs reflecting the allocation of grants to these groups, the different modalities of ORET for these groups, and the Dutch policy priority for the partner countries among the LDCs;
- A focus on larger transactions and (definitive) grant amounts, in order to enhance the accountability of the sample.
- Inclusion of recipient countries that have relatively many ORET transactions, such as Ghana, to allow the evaluation team to evaluate more transactions (involving the same supplier, end user or in the same subsector) during one country visit and learn more about the reasons for a country's success.
- Also included were two transactions from the active portfolio that were completed in 2013. The first concerns a drinking water treatment plant in Sudan with a deviating contract form and financing structure. The second is the last airport rehabilitation transaction in Tanzania that was related to earlier transactions for the same airport.

The final sample thus had the following characteristics:

- The sample contains 24 transactions, two of which are from the group of active transactions (27% of the total number of 86+2 transactions in the completed portfolio). In practice it concerns 13 case studies: five related ORET transactions in Ghana in the area of drinking water supply (which are covered in three case studies), one drinking water project in Sudan (one case study), two related transactions for the construction of a fishery port in Guatemala (one case study), one transaction on medical diagnostic services in Tanzania (one case study), one transaction on technical education in Sri Lanka (one case study), five related transactions for airport rehabilitation in Tanzania (one case study), one transaction in Bangladesh involving railway signalling equipment (one case study), four related transactions in Ghana for the delivery of 500 buses in total (one case study), one transaction in Indonesia for the delivery of tender and navigation buoys vessels (one case study), two related transactions in Indonesia for the rehabilitation of small power plants (one case study), and one transaction in Sri Lanka in disaster response (one case study). Paragraph 4.1.2 provides a brief description of each case study and annex 6 contains the key financial data of the underlying transactions;
- The sample covers seven countries and 24 transactions, see below (the number of transactions shown in brackets):
    - 3 LDCs: Bangladesh (one), Sudan (one) and Tanzania (six);
    - 4 non-LDCs: Ghana (nine), Guatemala (two), Indonesia (three) and Sri Lanka (two);

[1] The transaction overview of the 86 completed ORET transactions in the period 2007-2012 covered 21 transactions in China with a total transaction value of EUR 113 million which received EUR 49 million (9.3% of total definitive grants). In the active ORET portfolio (continuing after 2012), there are seven transactions in China, mostly in the health sector, to which an amount of EUR 16.2 million has been allocated (4% of the total grant amount committed).

- The sample covers all four aggregate sectors and eight subsectors, i.e. subsector 1 drinking water (six transactions), subsector 2 health (one transaction), subsector 3 wet infrastructure (two transactions), subsector 5 transport (seven transactions), subsector 6 education (one transaction), subsector 7 dry infrastructure (four transactions), subsector 10 energy (two transactions) and subsector telecommunication (one transaction);
- The sample covers three regions: Africa (with seven transactions in LDCs and nine in a non-LDC); Asia (with one transaction in one LDC and five transactions in two non-LDCs) and Latin America and the Caribbean (with two transactions in one non-LDC). The region Europe and Central Asia has been excluded in view of the small number (two) in the portfolio of completed transactions.
- The sample represents a combined transaction amount of EUR 454 million and 37% in the total transaction amount for the portfolio of 86+2 transactions in the evaluation period; and
- Transactions in the sample received EUR 205 million in grants and represent a share of 37% of the total value of definitive grants disbursed to 86+2 transactions.

If the 21 ORET-transactions in China that account for EUR 49 million in disbursed grants are excluded when calculating the share of the sample in the completed portfolio, the coverage of the sample increases from 26% to 34% of the total of disbursed grants and from 37% to 41% of the actual amount for all completed ORET transactions. For more information on the 24 transactions in the sample, see annex 6 which provides key data, such as transaction and grant amounts, non-grant financing, applicants, end users, tying regime, insurance (ECI), technical assistance, PESP and Dutch content.

Figure 2 shows the distribution of the number of transactions in the completed portfolio, broken down per geographical region and developing country status (LDCs versus non-LDCs) as a percentage of all 86+2 transactions. Figure 3 shows the distribution of the 67 completed transactions (excluding those in China), broken down per region and developing country status. Figure 4 depicts the representativeness of the sample of 24 transactions, showing that the sample accurately reflects the distribution of transactions of the portfolio by region and developing country status, excluding China. Although conclusions about outcomes and impact of the case studies relate solely to the case study transactions, we feel confident that they are indicative for the whole portfolio of completed transactions.

Figure 2 *Coverage of the 86 Completed + 2 Active (Completed in 2013) Transactions*

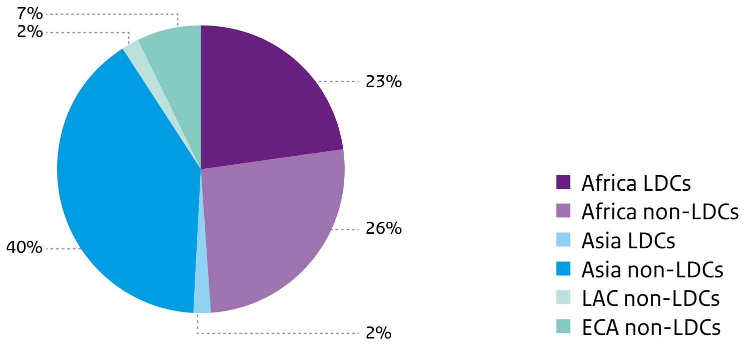


Figure 3 *Coverage of the 67 Completed Transactions (excluding China)*

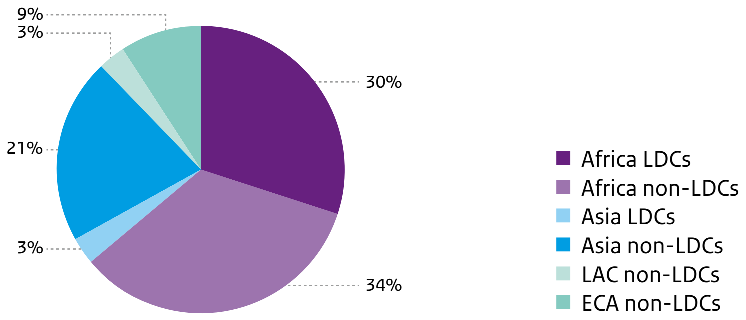
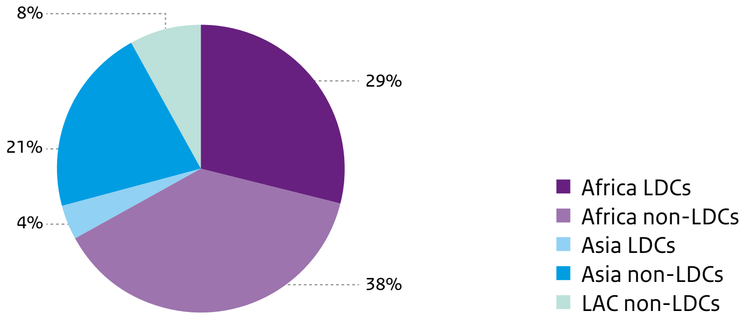


Figure 4 *Coverage of the 24 Transactions in the Sample*



To further deepen our understanding about outcome effects and impact and to try to establish attribution or at least contribution, we conducted in-depth surveys among clients and beneficiaries in four of the 13 case studies selected in the sample. For this additional purpose the following projects in the sample were chosen, together compromising nine ORET transactions in three countries:

i. The Omdurman water supply transaction in Sudan (SD0003) because the larger project also received ODA-financing from the Infrastructure Fund for LDCs (IDF) of FMO and its review in 2008 as part of the IDF evaluation offers a baseline of sorts;
ii. The three related water supply transactions in the Kwanyaku region in Ghana (GH00028, GH000145 and GH/WM07094);
iii. The transaction to rehabilitate diagnostic services in Tanzania (TZ00030); and
iv. The four consecutive transactions related to the delivery of 500 buses in total to Ghana (GH00020, GH00029, GH00039 and GH/ID07056).

One goal of these surveys was also to collect background information on the success and failure factors and underlying key assumptions and contextual factors. In the four case studies an attempt was made to estimate what might have happened without the transaction(s).

1.4.3 Assessment at Project and Programme Level

In order to assess the overall performance of the ORET programme in terms of the evaluation criteria, the 13 case studies (consisting of 24 ORET transactions in total) were assessed, using a scorecard based on the scorecard developed for the previous ORET evaluation (Berenschot, SEOR, Ecolas, 2006) (see annex 4). Per evaluation criterion (Efficiency, Effectiveness, Impact, Relevance, Sustainability, Additionality and Coherence) this scoring methodology defines a number of indicators. In this instance, 26 indicators were developed and scored. The number of indicators differs per evaluation criterion, ranging from one indicator for relevance to six indicators for effectiveness and policy coherence.

To illustrate the method, the criterion efficiency consist of two dimensions: 1. the quality of the appraisal and evaluation phases; 2. the realisation of the transaction. To assess the first dimension, two indicators were scored: i. the quality of the *ex ante* appraisal; and ii. the quality of monitoring and evaluation. The second dimension of efficiency contains three indicators: i: the realisation of the planned activities; ii. the price/quality ratio as perceived by the end user; and iii. the efficiency of the finance package defined by the one-off finance costs of the non-grant funding. Other evaluation criteria do not contain dimensions but are made up of the elements reflected in the dedicated indicators.

Though we are aware of the limitations of adding elements of a different nature, in order to arrive at a general assessment for each evaluation criterion, we aggregated the indicators to an overall score using an internationally recognised method[2]. This implies that if there were several indicators per evaluation criterion, we have given equal weight to each. This calculation method may suggest a degree of precision which is not the case. Therefore the overall weighted scores should be interpreted and compared with a degree of caution. Annex 5 also contains the completed scorecard for all 26 indicators for the 13 case studies, thereby allowing transactions to be compared for each indicator. The table includes the average weighted score per indicator obtained by using the definitive transaction amounts as weights. The figures in chapter 4 also show the average weighted score for each evaluation criterion obtained using the same weighing method. In addition we present the unweighted scores per indicator for each case study (see Table 6) and classify the case studies in accordance with the scoring in Table 1.

Table 1 Scoring of the 13 Case Studies

Scoring	Assessment
75-100	A: Good; above expectation
50-75	B: Satisfactory; according to expectation
25-50	C: Unsatisfactory; below expectation
0-25	D: Poor; far below expectation / failure

[2] Use was made of the M2 scoring table of the PEFA PFM Performance Measurement Framework (PEFA, 2005). This method is applied by World Bank, European Commission, DfID and other donors to assess the quality of the public expenditure and financial accountability of countries.

In order to avoid potential evaluator bias in the scoring, every transaction was scored independently by two or three evaluators who were actively involved in the evaluation of the project. Each evaluator assigned individual scores that can range from A:75-100 to D:0-25 (see Table 1). Annex 4 explains the scoring method for each of the 26 indicators and how the scores should be read. This can differ per indicator. To the indicator financial sustainability as an example: a satisfactory score of 67 implies that a transaction is able to generate 80-90% of the operational and maintenance cost through user fees or has other safeguards or budget commitments in place but cannot finance the investment and replacement cost. The scores in the figures in chapter 4 are the average scores of the evaluators.

In case studies in which more transactions are linked to each other or are a follow-up of an earlier transaction, the scores were assigned to the case study as a whole. In the case of the Kwanyaku water supply project in Ghana, three transactions are combined and scored as one project. The two transactions to construct a fishery port in Guatemala were linked and therefore considered as one project. The four public transport transactions in Ghana were similar transactions involving the supply of 475 VDL-buses in total to the same client and were therefore considered as one project when scoring. Similarly the two transactions to rehabilitate diesel generators in regions of Indonesia involving the same supplier and client were considered as one project. The five transactions related to the rehabilitation of the Dar es Salaam airport in Tanzania were also regarded as one project.

1.5 Limitations of the Evaluation

The transaction dossiers at ORET.nl and the Ministry were all on paper, which posed a serious challenge for the evaluators. The evaluation team received limited information from Atradius DSB on the risk and credit insurance of most ORET transactions. The limited availability of outcome information in the transaction dossiers further complicated the research. Most transaction dossiers focus on the transaction process and on inputs and outputs. In order to establish impact, base line data and a comparison group are needed, or at least the possibility of constructing a comparison group *ex post* in order to more reliably determine manner which effects can be attributed to the transaction or project. However, ORET rarely collected tailored survey data about intended beneficiaries for the purpose of establishing an *ex ante* baseline and an *ex post* end line situation.

The evaluation team interviewed many stakeholders and gathered valuable information. During the field visits, due to the fact that in most cases some years had passed since the transaction in question had been completed, many informants and contact persons in applicant companies or end users were hard to trace. In some cases, it was not possible to interview the informants who were actively involved in the transactions.

Feasibility studies carried out for the transactions were available but in some cases focussed solely on financial data. In most cases, information on the monitoring of progress of

transactions in the portfolio[3] review was provided by the suppliers themselves. General transaction performance was documented in half-yearly progress reports, mission reports (in about half the transactions) and completion reports based on monitoring information provided by suppliers and some field visits by ORET.nl staff to certain transactions. ORET.nl also produced mid-year and annual overview reports of the ORET-programme for the Department of Sustainable Development at the Ministry of Foreign Affairs. These reports are not public and contain limited, qualitative information on the outcomes of transactions. The monitoring information, supplemented with information obtained from interviews with relevant stakeholders during field visits, formed the basis for internal desk evaluations carried out by ORET.nl of a selection of transactions completed between 2007 and 2012 (ORET.nl, 2014; ORET.nl, 2013; ORET.nl, 2011; ORET.nl, 2009).

3 ORET.nl limits itself in principle to the monitoring of the transaction and not of the project as a whole in cases where the transaction forms a part of the project. ORET.nl does have some relevant information on projects completed since 2007.



2

Policy Reconstruction and Programme Implementation

2.1 Policy Developments within ORET

For the policy reconstruction of ORET all relevant policy documents were studied by using the archive retrieval systems of the Ministry of Foreign Affairs, Embassies and implementing organisations (FMO/NIO and ORET.nl). In addition, key stakeholders in the Netherlands were interviewed, including the staff and the approval committee of ORET.nl, relevant staff of FMO, the Ministries of Foreign Affairs and Economic Affairs, the state export credit insurance company Atradius DSB and of the Dutch employers' organisation VNO-NCW and applicant companies.

Over time developed countries used various instruments in an attempt to improve the competitive position of their exporters on the world market. ORET was such a mechanism, intended to help Dutch exporters access developing countries' markets and match the terms provided by other donors within the rules of the OECD Consensus framework on officially supported export credits. During its 36 year existence, the ORET programme was amended several times, each time adapting it to political pressures and new priorities, international recommendations and new insights on how to enhance the sustainability of its transactions. The basic principle of ORET – strengthening economic and social infrastructure in developing countries through partly subsidising Dutch exports of capital goods and infrastructure works – has, however, always remained the same.

In 1979 ORET was launched as a a mixed credits *(gemengde kredieten)* programme administered jointly by the Netherlands Ministry of Economic Affairs and the Ministry of Foreign Affairs (Directorate General for International Cooperation, DGIS). Problems in mobilising the non-grant funding part of the mixed credits, often due to the lack of export credit insurance on certain eligible countries, resulted in available budget funds remaining unspent.
In 1987 this was solved by introducing another format in the form of a concessional loan *(laag-concessionele lening: LCL)* programme for the full transaction amount of applications. This made commercial export credits and credit insurance redundant and saved recipients the cost of bank fees and credit insurance premiums (IOB, 2002). The NIO Bank provided concessional loans for periods of 15-30 years, at interest rates ranging from 2.5-3.5% and with grace periods of seven to eight years. The LCL programme solved the underspending problem but lost the leverage effect for the grants in the mixed credits. It made the programme so successful that the facility had to be closed in 1988. It reopened again as a mixed credit programme in 1990 but with higher grant conditions: 35% for non-LDCs and 50% for LDCs.

In 1993 the MILIEV (Environment) programme was set up to run in parallel with ORET and promote transactions intended to improve the environment in developing countries. The ORET transactions were supposed not to have a negative environment impact. MILIEV offered a higher grant element, up to 82%. In 1998, the two programmes were merged to form the ORET/MILIEV programme though keeping specific regulations for environmental projects. In 2005, the specific regulations of MILIEV were discontinued and the programme name was simplified to ORET.

In 2005 the programme was reopened for least developed countries (LDCs) after having been closed for this category in October 2001, following the OECD/DAC recommendation to untie aid for these countries. ORET was closed for new applications in August 2007 due to the high pressure on the limited budget and the political desire to introduce an untied successor programme (ORIO). A political instruction for its successor was even incorporated into the coalition agreement of the new Cabinet early in 2007. Responding to the recommendations in the 2006 evaluation of ORET, ORIO had a stronger sectoral focus. When ORET was closed for new applications in August 2007, 192 transactions were operational or still in the approval process. The last ORET-transaction is expected not to be completed before 2017. This is an indication of the long time lag between political decisions to terminate such infrastructure development programmes and their actual ending.

ORET supported commercially non-viable public infrastructure in developing countries by co-financing 35-50% of the eligible costs of a transaction budgeted at up to a maximum amount of EUR 45 million. A transaction usually involved the delivery of (Dutch) capital goods, services or construction works or a combination thereof. In order to avoid commercial distortions, the condition of commercial non-viability ensured that transactions would have a payback period of longer than ten years and/or could not be financed on commercial terms, in accordance with the criteria of the OECD Consensus for Officially Supported Export Credits. The grant share provided depended on the income status of the recipient country (35% of the transaction budget in the case of transactions for non-LDCs on ORET's list A and 50% for LDCs on ORET's list B)[4]. After the Water Facility (Ministry of Foreign Affairs, 2005) was introduced within ORET in 2005, drinking water and sanitation transactions became eligible for a grant share of 50% irrespective of the income status of the recipient country.

During its long existence the ORET-programme saw its official goals evolve and adapt to the changing views on such aid modalities. Policy changes in the period 1999-2006 resulted in several adjustments to the programme's objectives, the list of eligible countries, the screening criteria and procurement procedures and new options to enhance sustainability (for example, the adjustments made in 2005 that provided financing for technical assistance for operation and maintenance for a longer period and for strengthening the capacity of end users). After 2005, the main objective of the ORET programme shifted from promoting development to the promotion of sustainable economic development and improvement of the business climate in developing countries by facilitating investment in economic and social infrastructure. In 2006 the promotion of employment in the recipient country was dropped as a screening criterion.

[4] List A included developing countries that qualify for the tied ORET programme. List B included the Least Developed Countries (LDCs), according to the United Nations classification.

2.2 Procurement Practices

ORET started as a fully tied aid programme and continued as such for a long time. It was only accessible to Dutch applicant companies. The provision of subsidies was set up in a way that a recipient had to procure a minimum level of Dutch goods and services (most recently 50% introduced in 2005 and maintained in the May 2006 Regulation), with increasing flexibility for local procurement over time. Co-financing of the transaction took place in the form of a grant to the national authorities of a developing country for purchasing the awarded capital goods, services or works from the supplying company listed in the grant agreement. As ORET was a subsidy programme subject to the Dutch General Administrative Law Act, the supplier was treated as the applicant for the grant.

Recipient countries could choose the tendering procedures and suppliers in accordance with their own procurement legislation. The regular practice was, however, single sourcing or direct award to the Dutch company that usually also initiated the application. Sometimes waivers of national procurement legislation that – influenced by the World Bank – prescribed ICB as a rule, had to be secured to allow direct award. This was the case, for instance, for the construction of a fishery port in Guatemala in 2006-2007. Following the 2001 OECD DAC Recommendation on Untying ODA to the LDCs, also strongly promoted by the Netherlands, ORET was closed for transactions in LDCs in October 2001. It continued as a tied aid programme exclusively for non-LDCs. At the suggestion of FMO/NIO, an alternative was created for LDCs, in the form of an untied Infrastructure Fund (*MOL Fonds* or IDF) intended to be revolving. This fund invests in commercially viable infrastructure projects in LDCs developed by private investors with loans (often subordinated) and/or equity. FMO still administers the IDF fund (IOB, 2009) for which it received a start-up subsidy of EUR 182 million in 2002.

In 2005, the ORET-programme was re-opened for LDCs. It became untied for these countries (Ministry of Foreign Affairs, 2005). Initially, the OECD/DAC regarded ORET a *de facto* untied programme because it allowed non-Dutch companies to also apply for ORET grants for LDCs. All transactions in non-LDCs were notified to the OECD before a commitment was made, whereas transactions in LDCs were retrospectively reported annually. If the OECD or the member countries did not respond within 30 working days after receipt of the notification, tacit approval of the proposed transaction was assumed. The tied aid ORET procedures for non-LDCs remained the same. When the ORET programme was reopenend for LDCs in 2005, a ceiling of 30% of the available annual ORET budget was introduced for transactions in LDCs. This was implemented in response to the concern of major Dutch exporters that untied ORET transactions in LDCs might displace tied ORET transactions in non-LDCs too much. In the light of experience gained – Dutch companies winning most of the international tenders in LDCs and a substantive transaction in Tanzania breaching the 30% share ceiling for LDCs – this limit was abolished on 9 October 2006.

The May 2006 ORET Regulation further clarified the tendering process by including the prescribed international tendering procedures for LDCs and thereby also became *de jure* untied in the view of the OECD/DAC. This implied mandatory international competitive

bidding (ICB) for each individual transaction and *ex ante* notification of applications in LDCs to the OECD instead of the retro-active reporting per year. The main reasons for this clarification of the ORET rules for LDCs were international criticism of opaque tenders for LDC applications in 2005 (in 17 cases leading to direct awards to Dutch companies) and delayed notification of intended transactions to the OECD.

After May 2006, however, Dutch companies nevertheless remained the driving force behind the vast majority of applications by and for LDCs. In practice, applications were not handled very much differently than previously. After an initial positive assessment of an application for a LDC, the recipient country would receive a preliminary grant offer from ORET. Bidding documents could be part of the submitted documentation but that was not mandatory. Subsequently the recipient government had to organise an ICB procedure in accordance with minimum criteria for transparency and market conformity, to be assessed by ORET afterwards. The preliminary ORET grant offer became definitive and the grant amount was determined after the ICB process had yielded a winning company that would execute the transaction.

To counter the potential price-raising effect in the case of the tied aid procedure, a price-quality check of the goods and works was carried out routinely as part of the appraisal of an application. This check was done by experts (Dutch and otherwise) hired by FMO and later ORET.nl. They compared the price quotes in the application with current market prices and quality standards. Of course this comparison took place within the context of the conditions that allowed a maximum foreign content of the transaction. Initially 40% but from 2005 onwards 50% of the transaction amount could be spent outside the Netherlands to acquire parts and components. During the approval process the individual cost items of a proposed transaction, such as prices and the levels of profit margin, agent cost and contingencies as percentages of the transaction amount, were also scrutinised. Before 2007, this was done within the internal project approval cycle of FMO, thereafter it was done by the approval Committee of ORET.nl. There was very little involvement of the end users in the recipient countries in this process. Only a few well organised countries (such as Ghana) were able to take more ownership of the process by recruiting their own international price consultant to support them in the negotiations for the best contract price with the applicant company. In the end, however, non-LDCs usually had to form their own opinion about the overall package comprosing the contract price, the quality and timeliness of the delivery of the product and works, and the attractiveness of the funding offered by ORET.

In the case of LDCs and those non-LDCs that prescribed ICB under their national legislation, prior to the ICB process, ORET would also employ a price expert to produce a reasonable cost estimate for the goods and/or works, as part of the assesment of the application. This estimate could then serve as a reference point for the ICB-process. The Dutch company behind an LDC application had no guarantee of obtaining the order and had to accept the risk of not winning the international tender, despite having incurred preparatory costs, e.g. for a feasibility study (see Table 3 for more details on the tendering process of ORET transactions). After 2005, the annual number of applications for transactions in LDCs also

kept on growing while the transactions and concomittant grant amounts for LDC transactions became larger (see paragraph 3.2.2 for more on the focus on LDCs).

Usually, after a positive assessment of the tendering procedure by ORET.nl, the winning company still had to negotiate the contract with the recipient government. In practice ORET.nl would in parallel conclude a grant agreement with the recipient and negotiate policy conditions related to the grant. The definitive grant agreement with the recipient government and the grant decision for the applicant company would then once again be submitted to the approval committee for further scrutiny.

Under the ORET 2006 Regulation, it was mandatory for ORET.nl to screen the ICB proces organised by the tendering authority of the recipient. The Regulation did not instruct ORET.nl to provide assistance to LDCs in the management of the ICB process and the prequalification of bidders. We found little information on where and how ORET.nl provided actual assistance in this regard. In practice, the screening seemed to be only a perfunctory check of the ICB in the untied aid procedure of ORET and those cases where the recipient country insisted on ICB. Only in very few ICBs did the screening result in a rejection of the outcome. An obvious violation of international tendering rules was the reason for rejecting the application for a river bank erosion project in Senegal (SN0009). Here the tender was published only in a local paper, with a two-day notice period. In another case concering fishery research vessels in Angola (AO0008), misleading technical specifications in the tender documents about the required action radius of the vessels resulted in a competitor foreign company putting in a much more expensive bid and the Dutch company winning the tender on the price. However, this ICB was not disqualified or rerun.

2.3 Appraisal Procedures and Screening Criteria

As ORET was an applicant-driven subsidy facility neither the Ministry of Foreign Affairs nor the programme administrators FMO and ORET.nl were directly involved in selecting projects, developing transactions or choosing suppliers. Ideally, the recipient countries would have their own development priorities reflected in the transactions that applicant companies submitted on their behalf. Having a formal declaration from the competent national authorities, usually the relevant line Ministry, about the priority attached to the proposed transaction was a standard requirement for an application. This was not always accompanied by a declaration from the Ministry of Finance to ensure that the application also covered an overall national priority and would not jeopardise the debt sustainability of the recipient if a commercial loan were required.

Submission of a proper feasibility study according to a prescribed format was another standard requirement. Applicant companies could make use of a preparatory facility of the Ministry of Economic Affairs called PESP (*programma economische samenwerking projecten*) to co-finance the cost of a feasibity study. During the period covered by this evaluation, around 21% of the approved transactions were awarded a PESP subsidy to co-finance the cost of the required feasibility study. Concerning the use of the PESP instrument there is no significant

difference between the group of major users of ORET and the group of new or one-off users of ORET. It seems that many applicants in the latter group were not even aware of the facility (see further paragraph 3.2.4). The PESP facility was discontinued in 2008.

Having a full mandate, FMO and later ORET.nl determined independently from the Ministry whether an application qualified for a grant. During this evaluation, we discovered one application[5] from 2006 for which the then Minister for Development Cooperation exerted pressure on FMO to accommodate tender irregularities of the Dutch applicant and on the Ministry to find additional funding to cover the funding shortfall. In order to be eligible for ORET funding, applications had to meet the screening criteria listed in Text Box 2 below. Within ORET.nl, Ecorys assessed the economic, financial, commercial and institutional viability of a proposed transaction, usually done by means of a desk appraisal based on information provided by the applicant. The management of ORET.nl was advised in its appraisal of applications by an independent approval committee composed of external experts with long standing experience in various aspects of ORET. We found no cases in which the management of ORET.nl ignored the advice of the approval committee (see also paragraph 2.5.1).

The 2006 ORET Regulation did not specify specific appraisal criteria or indicators on how applications were to meet the objectives of promoting sustainable economic development and a sound business climate. The economic rate of return and the financial rate of return calculated in the feasibility study were used as impact indicators for economic development and poverty reduction. The earlier requirement of no harm to the position of the poor and women was abolished in 2006. It was replaced by an indication of how the project/transaction fitted into ILO and World Bank frameworks on social impact. The assessment by Ecorys and the prescribed feasibility study also had to provide adequate information on the expected contribution of the transaction to the creation of sustainable employment in the developing country and the impact on poverty and the status of women. The condition on environmental impact (that – on balance – a proposed project would not be harmful to the environment) was maintained. In the case of major infrastructure projects and projects in environmentally sensitive areas an environmental impact assessment was also required. In the assessment of the applications FMO and later ORET.nl did not rely solely on the information provided by the applicant, but also did their own research. Ecorys performed the substantative assessment of applications and hired consultants to do the standard price/quality check.

5 This concerned the intended delivery of tug boats to Sudan where the applicant had deducted the expected ORET subsidy from his tender price and had subsequently won the international tender. Ultimately the transaction was rejected on substantive grounds because the end user – a semi-privatised river authority – was deemed to be too weak institutionally and not able to implement the transaction successfully.

Text box 2 *Screening Criteria for ORET Transactions*

- All ORET transactions must meet the OECD *Arrangement on Officially Supported Export Credits*, the OECD *Agreement on Untied ODA Credits Transparency* and the OECD DAC *Recommendation on Untying Official Development Assistance to the LDCs*.
- Transactions must be commercially non-viable, i.e. their financing is not feasible under normal market conditions.* A transaction is deemed commercially non-viable if, under realistic assumptions about market prices, within ten years it fails to generate sufficient income to cover initial capital investment, ongoing operation and financing costs.** If a transaction is commercially viable but cannot obtain financing on commercial terms, it is deemed financially non-viable and can then still be eligible for an ORET subsidy, provided it neither distorts the market for other market players in the recipient country nor displaces other potential investors.
- The transaction must have a development impact, i.e. should stimulate sustainable economic, ecological and social development in developing countries.
- The proposal must state and present supporting evidence for what the transaction is expected to achieve in terms of financial-economic (economic, financial, institutional, and technical sustainability), environmental and social impacts, in the format prescribed for the feasibility study.
- Both the end user and the applicant company (and possible partners) must be sufficiently capable, in all respects, of ensuring long-term sustainable management of the transaction.

*Notes: * According to the OECD Guidelines, tied aid is only allowed for those transactions for which financing on market conditions is not viable; ** Method of calculation: cash flow analysis, calculating the accumulated cash flow in year 10, using a commercial interest reference rate (CIRR) settled by the OECD. The calculation is made for the transaction as a whole. It is not allowed to split off unprofitable activities from the transaction and request tied aid for only these parts.*

ORET employed a pipe-line approach to assess applications and allocated funding on a first-come, first-served basis. It did not use the method of a beauty contest where applications have to compete for funding on the basis of their scores on development relevance. With ORET, if the screening criteria were met, an ORET-subsidy could not be denied, unless insufficient budget was available. Many Dutch applicants were also of the opinion that they were more or less entitled to these subsidies.

2.4 Financing of ORET

2.4.1 Financing Modalities at Transaction Level

Transactions for non-LDCs could qualify for a grant up to 35% of the foreseen transaction amount; the limit for the grant share in LDCs was 50%. With the introduction of the special Water Facility under ORET, transactions in the area of drinking water and sanitation in both LDCs and eligible non-LDCs could qualify for a grant of up to 50% of the transaction amount. The maximum grant that could be awarded per year to a single company was limited to 20% of the annual available budget of ORET. The same ceiling also applied to the total of grants awarded to a single country in one year. ORET could co-finance transactions up to a transaction value of up to EUR 45 million. There were no ceilings for cumulative allocations per country over a longer period, which allowed the heavy use by some countries (see paragraphs 3.1 and 3.2.1).

To enhance sustainability, from the 2005 ORET regulation onwards, under certain conditions, a recipient country could be awarded additional grant funds to cover up to 75% of the cost of longer-term (up to five years) maintenance and management support. As a result, grant percentages rose slightly above the 35% and 50% ceilings. Due to the delivery of additional technical assistance for maintenance and capacity building, it took longer to complete an ORET transaction (see also paragraph 3.2.8).

After the tendering was concluded, the tied and untied procedure followed more or less the same path. The recipient country still had to acquire the non-grant funds to fill the financing gap, often with assistance from the applicant company. This funding could take several forms: a long-term export credit from a bank (usually Dutch), trade finance in the form of a short-term supplier's credit by the applicant or a short-term letter of credit (a guarantee by the recipient's bank to the exporter for payment upon delivery), and sometimes the recipient country's own funds, either from the national budget or from other donor funds (see further paragraph 3.2.7). In one case, that of a water treatment plant (MZ00026-works) in Mozambique, the remaining funds were provided by a grant from the Dutch bilateral aid allocation, thereby defeating the intended leveraging effect of ORET grants. In a few cases in Sri Lanka, at the request of the recipient, the ORET funding took the form of a less concessional loan. The ORET grant was then used to soften the commercial loan that was provided for the whole transaction amount into a concessional loan by subsidising and/or paying in full the interest charges on the loan up-front.

Having the non-grant financing arranged and a signed contract with the company in place, were basic conditions to be fulfilled by the recipient government prior to the conclusion of the grant agreement. This sometimes caused delays, which would then require an extension of the period in which the ORET grant remained on offer. In 21% of all applications in the research period, the provisional grant offer expired, mostly because the non-grant funding never materialised, thus resulting in the application being nullified (see paragraph 3.3).

If long-term finance was needed, most recipient governments opted to obtain the non-grant financing from the Dutch bank used by the applicant company. Some recipient

countries (such as Ghana), however, were quite well organised and shopped around to find the best offer for an export credit from the few big Dutch banks operating in that market because of the link with Atradius DSB (the insurer of the loan), or used other financial means available to them. When it came to the export credit insurance, coverage was possible under the regular export credit insurance (ECI). Banks funding transactions in ORET-eligible countries with a higher risk factor, for which regular coverage was not available, could avail themselves of the Emerging Markets Guarantee Facility (GOM). Under GOM, the export transaction was assessed against the usual ECI-terms. The risk of non-payment by the debtor was insured by covering the credit risk, often combined with a manufacturing risk (the so-called capital goods insurance) or construction projects insurance.

Under the 2005 ORET Regulation, the one-off financing costs became part of the transaction amount and could be financed from the grant up to a level of 75%. Eligible financing costs were the insurance premium of the credit risk, manufacturing risk, several fees and other demonstrable costs related to setting up the supplier's credit. As part of the portfolio analysis, paragraph 3.2.7 provides more details on the sources of the non-grant funding, the export credit insurance policy to cover credit and other risks and the considerable variation in the finance costs (premiums charged by Atradius DSB and bank fees).

2.4.2 Disbursements at Programme Level

The maximum budget available for the implementation of ORET-transactions was publicised annually in the Netherlands Government Gazette. ORET still receives an annual budget allocation from the Ministry of Foreign Affairs based on the liquidity needs of the approved ORET transactions that are being implemented. Annual grant disbursements under ORET averaged nearly EUR 94 million after 2007, peaked at EUR 140 million in 2008 and gradually declined thereafter (see paragraph 2.5.1 and Figure 8). In total, in the period 2007-2013, ORET.nl disbursed EUR 585 million to ORET transactions (this included both completed and active transactions according to the definitions used in this evaluation). Per 31 December 2013 the maximum level of active commitments (not yet disbursed) for the remaining 47 transactions in the active portfolio was circa EUR 35.7 million. If disbursed, this would raise the total amount of grants spent by ORET in the period 2007-2017 to EUR 620 million. The total grant amount for all 139 transactions (completed and active) is EUR 936 million of which EUR 316 million was spent before 2007.

2.5 Institutional and Administrative Aspects of ORET

2.5.1 Implementation of ORET

During its long existence, the ORET programme has been administered by several organisations. Until March 2002, ORET was implemented by the Ministry of Foreign Affairs itself, in cooperation with the Ministry of Economic Affairs and the Ministry of Finance. In April 2002, the Netherlands Investment Bank for Developing Countries – the NIO Bank, a subsidiary of the FMO (the Netherlands Development Finance Company of the Netherlands) – was mandated to manage the programme. FMO was contracted to administer the programme

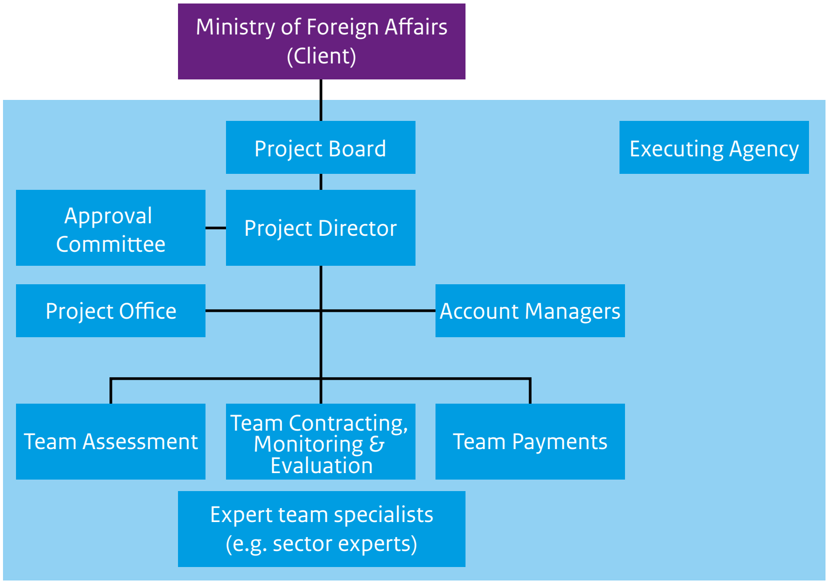
until 31 December 2006. In the course of 2006, the Ministry of Foreign Affairs decided that it was necessary to apply public procurement rules and to tender the management contract of ORET. FMO also indicated that funding public infrastructure did not fit well in its development bank profile of promoting private sector development in developing countries. The tender process that was organised in the second half of 2006 ultimately resulted in one contender, a consortium of Price Waterhouse Coopers (PwC) and Ecorys, after the withdrawal of the other contender (Atradius DSB).

Since 1 January 2007 the ORET programme is being implemented by a consortium operating under the name ORET.nl. The consortium received a full mandate from the Ministry of Foreign Affairs to take all relevant decisions related to the provision of grants based on the regulations of the ORET-programme. After a trial period of only one year[6], the contract with ORET.nl was extended until the end of 2008. By the end of that year a new tender procedure had been organised for the implementation of ORET for the period 2009-2013. Since the consortium was the only company that participated in that tender procedure, it continued the management of ORET under a new management contract for the period 2009-2013. Even though the programme is now slowly winding down, a new tendering procedure was organised by the end of 2013 for the remaining period of ORET. Again ORET.nl was the only contender and was contracted until 31 December 2017, with the possibility of extending the contract annually until the programme ends.

Within the consortium, PwC is responsible for administrating and monitoring transactions whereas Ecorys focuses on the financial and economic assessment of applications and the price/quality check. This division between administrative and operational issues on the one hand and substantive matters on the other hand has worked well (see Figure 5 for the administrative organisation). The substantive assessment of applications was usually done in the form of a desk appraisal of the information provided by the applicant and entailed checking the economic, financial and commercial viability of the proposed transaction. The application and assessment were then submitted to the so-called approval committee, established by ORET.nl and composed of four independent and very experienced experts in the various fields. In a relatively short period the approval committee reviewed each application and advised the management of ORET.nl on relevant additional conditions for the applicant and/or the recipient government organisation. In practice ORET.nl never went against the advice of the committee. Though it was promised in the tender offer and announced in several annual reports of ORET.nl, there was no further involvement of the approval committee in the monitoring and evaluation of transactions at a later stage. So there was no feedback mechanism in the decision-making process (to the regret of members of the committee).

[6] During which there was political debate about a successor programme.

Figure 5 *Administrative Organisation of ORET.nl*



It was not a standard practice for the appraisal of applications by ORET.nl to include a field visit to the recipient country. Since the Ministry had not explicitly listed field visits as a standard requirement of the appraisal procedure in the programme of demands in the tender procedure, ORET.nl had not budgeted for this type of expenditure in its tender offer. Later, the Ministry did not insist and the practice was not amended. In most cases the procedure relied solely on the documentation provided by the applicant, the information on the end user provided by the Embassies (if present in the country and involved) and the assessments by Ecorys, which verified the supplied information to the best of their ability.

Prior to ORET.nl, FMO staff often visited the end-user or responsible Ministry as part of the appraisal process while on mission to the country for other purposes. Grant agreements developed during the FMO regime were also more detailed, often containing more policy conditions in the grant contract with the recipient government. Sometimes these conditions seem unduly detailed in relation to policy issues over which the ORET transaction or project as such had little leverage. Examples are the stipulation that dedicated bus lanes be constructed in Accra (the transaction was to supply busses), the higher user fees stipulated for water and electricity in several countries in relation to drinking water plants, and stipulations of a guaranteed minimum price for landed white fish and the movement of the semi-industrial fishing fleet from the commercial port Quetzal to the new fishery port in Champerico in Guatemala. Though promised and signed into the grant agreements, these stipulations were never enforced and they were not met.

The workload for the implementing agency consisted of the following: registering applications; guiding applicants and recipient governments; appraising applications (including analysing their commercial, economic and financial sustainability and checking prices); issuing grant decisions to applicants; dealing with complaints; issuing provisional grant offers to recipient governments and negotiating grant agreements with them; giving advice on tendering procedures including ICB; executing payments for the transactions in line with agreed performance indicators and the parallel drawdown of the non-grant funding; monitoring transactions and field missions; producing desk evaluations; and determining final grant decisions upon completion.

The total number of administered transactions in portfolio peaked at 191 at the beginning of 2008, following the surge in applications before the *de facto* closure of the ORET facility for new applications in August 2007. Over time, the 'frozen' portfolio shrank, primarily due to the completion of transactions. Other reasons were that various applications were rejected because of lack of funds or because they did not meet the substantive criteria. In a limited number of cases, approved transactions were closed because they did not fulfil the agreed grant conditions. In the period 2007-2008, ORET.nl appraised and approved 48 new applications but rejected 58 applications for various reasons (see further paragraph 3.3). After 2008 the work of ORET.nl shifted in character from appraising applications and negotiating grant agreements to monitoring the implementation of transactions including field missions, making the required payments and performing desk evaluations (see Figure 6 and Figure 7).

Figure 6 *Workload of ORET (I)*

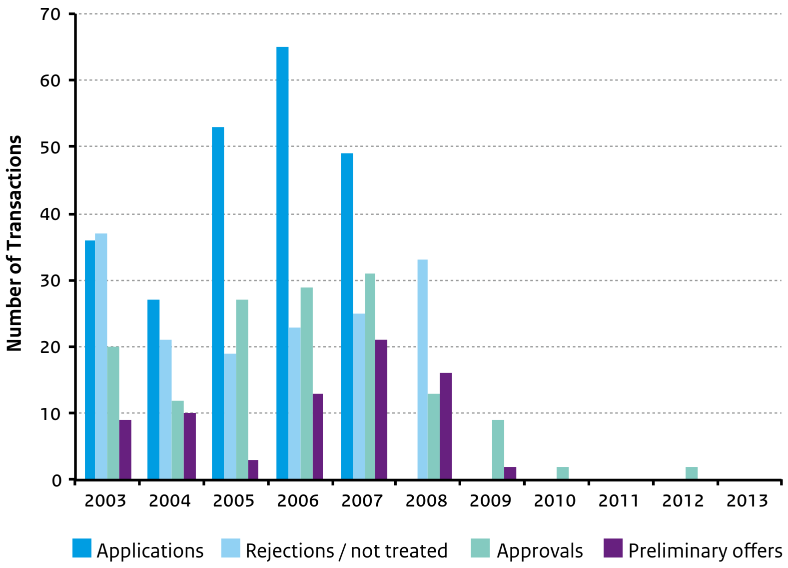
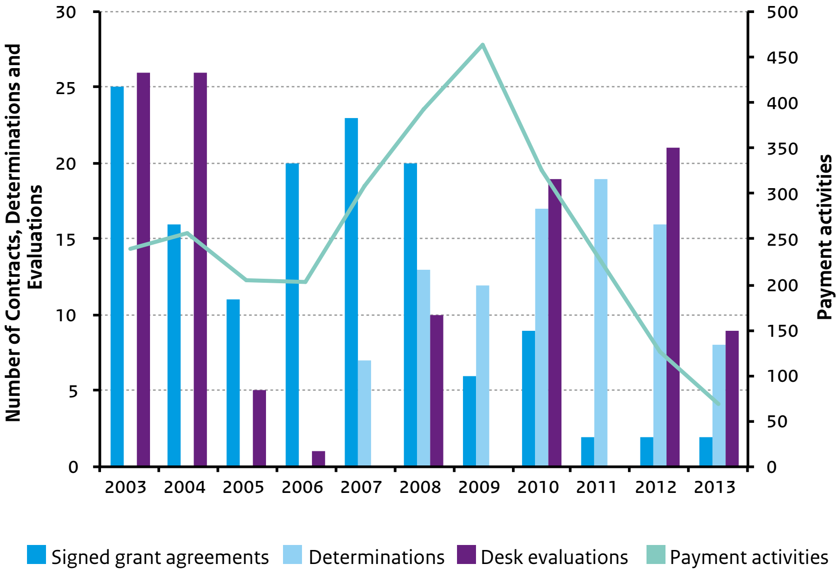


Figure 7 *ORET Workflow (II)*



The number of contracts (signed grant agreements) declined from 23 in 2007 to the final two in 2013. The number of final grant decisions (determinations)[7] increased from seven in 2007 to 19 in 2011 and then decreased to eight in 2013. The number of payments (right-hand axis in Figure 7) rose from 308 in 2007, peaked at 464 in 2009 and declined to 69 in 2013.

The first desk evaluations were in 2008: there were ten, there had been none in 2007. There were none in 2009 and 2011, but 2012 saw the maximum annual total: 12. The desk evaluations followed after the final report by the applicant and followed a format that focused on the realisation of outputs. Often, outcomes and impacts were reported by repeating the expectations from the feasibility report, presumably on the assumption that since outputs had been generated, the projected outcomes must also have materialised. The mandatory accountants' reports limited themselves to verifying the accuracy of the financial data and whether the required minimum Dutch content was met.

The reasons for the delay in the determinations of some ORET-transactions include up-front delays in the approval process for certain transactions (the last two grant agreements – for Cape Verde – were finally signed in 2013), protracted international competitive tendering procedures in the case of some transactions in LDCs, and delays in the implementation phase because additional time was needed for follow-up technical assistance, extending the life of the transactions involved. The last ORET transactions are expected to be completed by 2017.

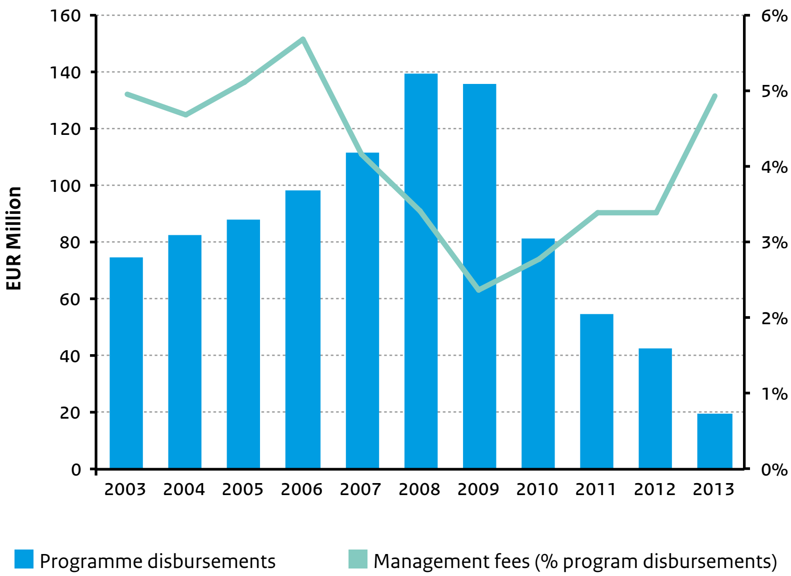
7 FMO did not register the number of final grant decisions in its administration period.

The workload of the implementing organisation has also been the primary factor in determining the management fees for the ORET programme. Figure 8 gives an overview of the programme disbursements in EUR million and the management fees paid to FMO and ORET.nl as a percentage of the programme disbursements in the period 2003-2013. The management fee for FMO had been contractually arranged on the basis of 50 applications, 40 appraisals, 35 grant decisions and 27 desk evaluations per year. Additional work was to be paid extra but in the case of less work than agreed, the Ministry never requested a refund. In the period 2002-2006, when FMO managed the programme, the actual number of applications, appraisals and evaluations was usually below the expected numbers specified in the management contract.

It is difficult to compare the efficiency of the two implementing agencies in terms of their implementation costs as a proportion of the programme disbursements. Figure 8 shows that overall FMO charged higher management fees in the period 2003-2007 than ORET.nl did after 2007 but FMO probably provided more support to applicants and recipient governments. A number of applicants mentioned in the interviews that after ORET had been transferred from FMO to ORET.nl, the level of support from the implementing agency during the preparation of the applications was reduced. Rather than “thinking along with the applicant” and supporting the applicant in the development of the application as FMO did, ORET.nl followed a more bureaucratic approach by verifying whether the submitted application met the programme’s formal requirements. In general, applicants found it more difficult to work with ORET.nl than with FMO, one reason being the lack of a personal account manager. The ORET dossiers show that this change in attitude and treatment was instigated by the responsible department DDE within the Ministry of Foreign Affairs. DDE instructed the consortium to restrict itself solely to assessing the application, on the grounds that too much involvement in the development could lead to a bias in the later appraisal of an application. It may also have partly been motivated by the huge workload that swamped the new administrator.

ORET.nl managed the programme on the basis of a lump-sum contract that was budgeted in the tender offer and based on the expected work load. The amounts were adjusted in the second management contract for the period 2009-2013 in the light of developments in the portfolio and projected concomitant workload. Figure 8 shows that the management fees of ORET.nl as a percentage of programme disbursements decreased from 4.2% in 2007 to 3.4% in 2008 and then decreased further to 2.4% in 2009, after which they increased to 4.9% in 2013. This trend is not unexpected because by 2010 the portfolio was much smaller and so were the programme disbursements, with the result that administrative costs formed a larger percentage of the programme cost.

Figure 8 *Programme Disbursements and Management Fees*



2.5.2 Supervision of ORET by the Ministry

FMO and ORET.nl regularly submitted progress reports to the responsible department DDE at the Ministry of Foreign Affairs, first bi-annually and in later years annually. The annual reports of ORET.nl had a strong financial emphasis, however, and focused on the performance of the activities of ORET.nl and the delivery of outputs within transactions. The annual reports were never published by ORET.nl or the Ministry. The Ministry reported on the performance of ORET to Parliament in a general sense as part of the regular result reports on development cooperation and the budget process and in a specific sense in response to related parliamentary questions about ORET. Further, regular policy meetings were held between ORET.nl and the responsible desk officer for ORET at the Ministry. Whereas supervision was more instructive initially, when ORET.nl was still finding its way after the programme had been transferred from FMO, at a later stage the meetings focused more on solving practical or political problems relating to individual transactions or dealing with the liquidity needs of the programme. Usually the Ministry offered its services or those of embassies to ORET.nl to solve problems in the field. Representatives of the Ministry also regularly accompanied ORET.nl staff on missions to monitor transactions in the field.

In practice there was little supervision from the Ministry on the realisation of outcomes of ORET transactions. Already mentioned in the 2008 annual report of ORET.nl, a lesson learned from monitoring and desk evaluations was that little was known on the outcomes and the ultimate development relevance of transactions for recipient countries. In that report it was also concluded that the format of the progress and final reports did not require applicants to provide such data as we have experienced in doing this evaluation. Though the

overall monitoring and evaluation framework for private sector development policies was still very much in its infancy at that time, this identified shortcoming did not trigger any follow-up action from ORET.nl or the Ministry. The problem was reported again in the 2010 Annual Report. The Ministry seems to have focused its attention primarily on improving the M&E cycle in the successor programme ORIO and to have left ORET as it was.

From our review of subsequent annual reports, the minutes of regular coordination meetings between ORET.nl and the Ministry and internal approval memoranda of financial reports of ORET.nl, we have been unable to establish whether other horizontal issues arising from desk evaluations and field missions were addressed by ORET.nl or the Ministry. Among other things, these issues concerned the lack of information on sustainability issues, problems in acquiring non-grant financing from commercial banks after the global financial crisis in 2008, recurrent cost financing problems of recipient governments and the heavy use of ORET by some countries. Furthermore, neither the very succinct character of the desk evaluation reports of individual transactions nor the lack of evaluation reports synthesising desk evaluations or the experience of the Ministry gained with ORIO in parallel, induced the Ministry to probe ORET.nl further on these points.

2.6 Driving from ORET to ORIO and Back

On 1 August 2007, while the political decision making process on a successor programme was on-going (this lasted until the end of 2008), the ORET programme was closed rather abruptly for new applications. An early forewarning was the introduction by the end of 2006 of a budgetary ceiling of EUR 119 million for commitments in 2007. In the past, ORET had in essence always been an open-ended subsidy facility where applications never breached the available budget space for commitments, partly because some 30-40% of applications would fall through for various reasons. In earlier years the budget allocations for ORET were never fully utilised, partly because of delays in the processing of applications and partly because applications did not result in grant agreements being signed with recipient countries. Minister Van Ardenne started to actively promote the use of ORET by introducing the Water Facility in 2005 and allowing FMO by the end of 2005 to over-commit from a ceiling of EUR 94 million to a level of EUR 164.7 million (175%% of the reserved budget for 2006). This was topped up once again by the end of 2006 to a commitment ceiling of EUR 282 million (300% of the 2005 level).

The introduction of the budget ceiling for 2007 triggered a race to submit new applications. In the period 1 January to 31 July 2007, a total of 51 applications were submitted, which would have required a grant amount of EUR 453 million if approved. The introduction of the budget ceiling coincided with the transfer of the administration of ORET from FMO/NIO to the consortium ORET.nl from 1 January 2007 (see paragraph 2.5.1) and the arrival of a new Minister for Development Cooperation. The decision to end ORET and develop a successor caused resentment both among the companies that had had their application rejected and in the organised business sector and led to intense parliamentary debate. The actual

commitment ceiling for the 2007 applications was only reached in April 2008[8] and resulted in the rejection of the 23 applications still in the pipeline (worth in total circa EUR 202 million) since applications could be processed and approved only if sufficient grant funding was available (see also paragraph 3.3).

ORET's successor ORIO (the Dutch acronym for Ontwikkelings Relevante Infrastructuur Ontwikkeling) did not become operational until 1 January 2009. Annex 3 provides a detailed comparison between ORET and ORIO. The latter fund is a finance facility that is also aimed at co-financing public infrastructure investments in developing countries with grants. ORIO covers all LDCs (under ORIO-A) and some 40 non-LDCs (under ORIO-B). This distinction between ORIO-A and ORIO B was annulled by the changes introduced in 2012. ORIO was, however, not subject to the General Subsidy Law permitting the introduction of a beauty contest method to select projects. Applications for ORIO had to compete for funding on the basis of development relevance in bi-annual tender rounds in which 50% of the budget for that year was available. Dutch applicants had felt entitled to a subsidy under ORET if minimum criteria were met and budget was available.

Taking account of the lessons learned from the 2006 ORET evaluation, ORIO tried to strengthen ownership and development relevance by designating the government of the developing country as both applicant and recipient of the grant. ORIO pursued the practice of ORET of fully (i.e. *de jure*) untying the programme for LDCs but it went further than ORET, by *de facto* untying transactions for non-LDCs by also allowing non-Dutch companies to submit applications on behalf of the governments of those countries. Many aspects of ORIO show the political compromises in its making process, e.g. in the list of eligible countries, the focus on a few sectors, the untied procurement regime and the (in-sourced) management of the programme by *Agentschap NL*, now Netherlands Enterprise Agency (*Rijksdienst voor Ondernemend Nederland*, an implementing agency under the Ministry of Economic Affairs).

ORIO introduced two distinct phases in its project cycle: (i) project development primarily done by consultants and financed with grants up to 100% of the costs in the case of LDCs and to 50% in the case of non-LDCs; and (ii) project implementation by a company, preceded by ICB only in the case of LDCs. ORIO tried to strengthen its development relevance by offering the option of financial and technical support throughout the lifetime of a project/transaction. ORIO aimed to focus its funds on the poorest countries by making an effort to have 50% of its annual commitment budget of EUR 90 million spent in LDCs. This desired share was to be met in 2011 and to become a threshold thereafter. Furthermore, ORIO initially tried to sharpen its focus by limiting the number of eligible sectors per country to two or three while at the same time attempting to enhance linkages with bilateral country programmes in partner countries of the Netherlands. Under pressure from the business sector, however, both the beauty contest and the sector focus were dropped in 2011. Nevertheless in April 2014, the Minister for Foreign Trade and Development Cooperation decided to terminate ORIO. The main reasons cited were the long delays in getting projects developed and implemented, the general dissatisfaction of Dutch export

8 Applications submitted before 2007 were not subject to the budget ceiling.

companies about their lack of involvement in the development phase which had become the realm of consultants firms and uncertainty about the non-grant financing modalities. The Minister announced the development of a successor programme entitled DRIVE (Development Relevant Investment Vehicle) that at the time of writing this report was being developed and that has become operational by mid June 2015.



3

Overview and Analysis of the ORET Portfolio

3.1 Introduction

This chapter gives an overview of the entire portfolio of transactions: completed, ongoing and rejected. It describes trends in horizontal aspects of ORET, in particular the distribution of the allocation over beneficiary countries and sectors, the types of applicants, the tying regime and the Dutch content, the financing modalities, the preparation and implementation of transactions and the efforts to enhance the sustainability of transactions. We investigate possible factors behind those trends and whether expressed policy ORET objectives were actually met. Finally we briefly sketch the general context of ORET, i.e. its role within the Dutch PSD policy and compare it to the public infrastructure needs of developing countries and other financial sources.

3.2 An Overview of All ORET Transactions

In the evaluation period 2007-2012, 86 ORET transactions were completed, most of which were initiated after 2000 and developed under the management of ORET by FMO. A completed ORET transaction is one for which ORET has issued a final grant decision to the applicant after satisfactory closure of the transaction. Usually this is preceded by the so-called Certificate of Completion signed by the client or recipient authority. The completed transactions discussed in this report cover 26 countries (10 LDCs and 16 non-LDCs) and represent a transaction value of EUR 1183 million. In total they received a grant amount of EUR 528 million over their lifetime and were implemented by 38 companies (four of which were not-Dutch).

The 53 active transactions (still ongoing on 1 January 2013) cover 27 countries (15 LDCs and 12 non-LDCs) and add up to a total transaction amount of EUR 968 million. Together these active transactions are expected to receive a total grant amount of EUR 409 million over their lifetime and are being implemented by 31 companies (ten of which are not-Dutch). On 1 January 2014 only 46 transactions remained in the active portfolio.

The combined portfolio of both completed and active transactions includes 139 transactions implemented in 40 countries (20 LDCs and 20 non-LDCs) by 56 companies (nine of which are not-Dutch and three which are a special purpose vehicle incorporated in the Netherlands). The size of the transactions ranged between EUR 0.48 million and EUR 45 million, with a median value of EUR 11.8 million. Of the total of 139 transactions, 18 were larger than EUR 30 million while 41 transactions were smaller than EUR 4.5 million. The total grant amount that will be spent by the time the last ORET transaction has been completed (in about 2017) is expected to be around EUR 936 million and may result in investments in public infrastructure worth EUR 2090 million.

3.2.1 Beneficiary Countries

A geographical overview of all 139 transactions is given in Figure 9 in terms of disbursed grants (for completed transactions) and allocated grants (for active transactions). Considering ORET beneficiaries, we see a marked geographical focus: four of the 40 beneficiary countries

have received over EUR 50 million (Ghana, Tanzania, China and Sri Lanka) while 13 countries have received over EUR 20 million (see Figure 10). With 24% of the total grant amount and 25% of the total transaction amount in the combined portfolio, Ghana is far ahead of Tanzania, China and Sri Lanka; the other beneficiaries trail behind. Text Box 3 explains some of the factors that lie behind the success of ORET in Ghana. According to the Ministry of Finance and Economic Planning (MOFEP) of Ghana, ORET has been so successful because both the Ghanaian end users and ministries (coordinated by MOFEP) developed efficient domestic procedures, gained valuable experience over time in working efficiently with ORET and Dutch banks and found it easy to work with the Dutch applicant companies.

3.2.2 The Shares of LDCs and non-LDCs

Increasing the proportion of LDCs in ORET became a prominent political objective after 2005. Comparing the completed portfolio with the active portfolio reveals a shift towards LDCs accounting for a larger share of transactions: from 46.5% to 53.5% of the number of transactions and from 32% to 42% in terms of the value of disbursed and committed grants. Looking at the allocation of annual disbursements to LDCs and non-LDCs, the share of LDCs in total grants fluctuated between 28% (in 2008) and 49% (in 2011) with a one-off peak of 61.6% in 2012 (see Figure 11). Figure 12 shows the total transaction and grant amounts for each recipient country in the two groups in the combined portfolio.

Figure 9 *Grants Allocated per Recipient Country*

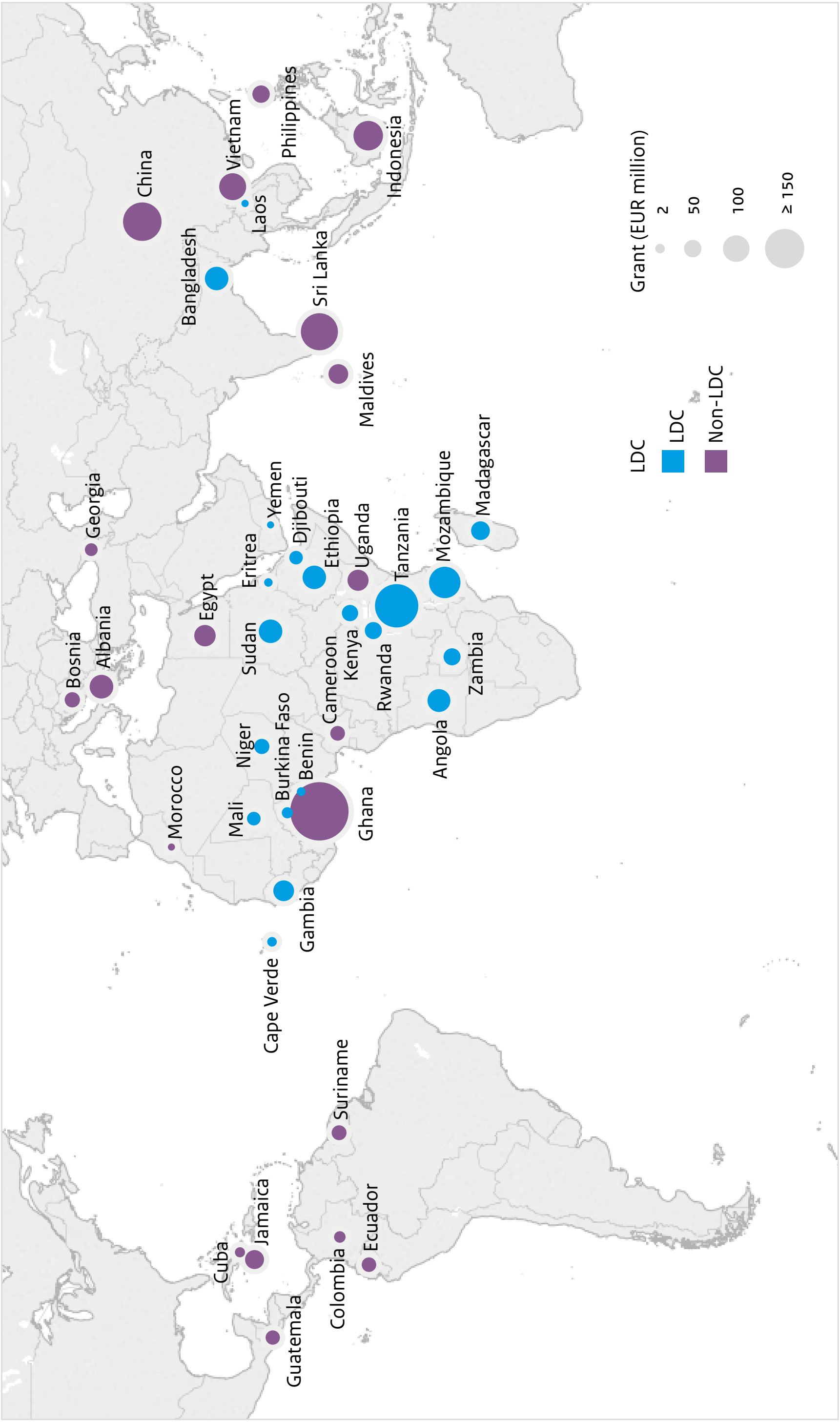


Figure 10 *ORET Beneficiary Countries*

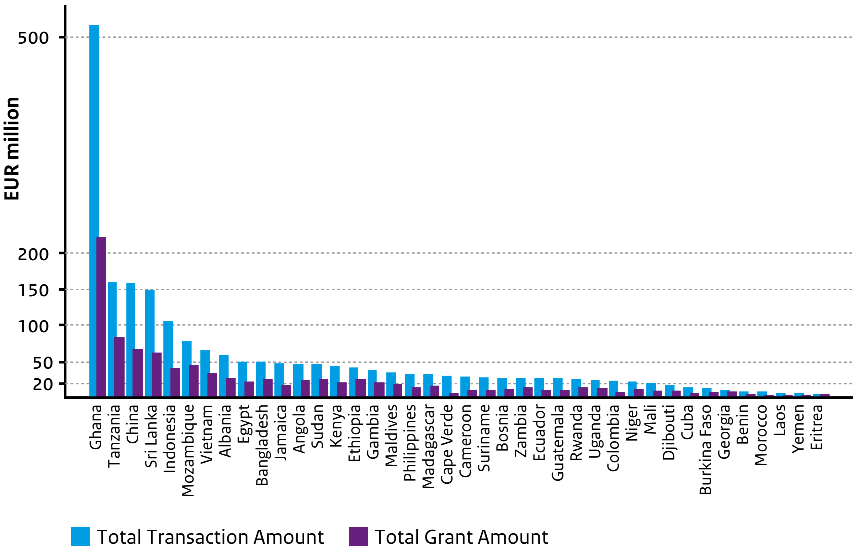
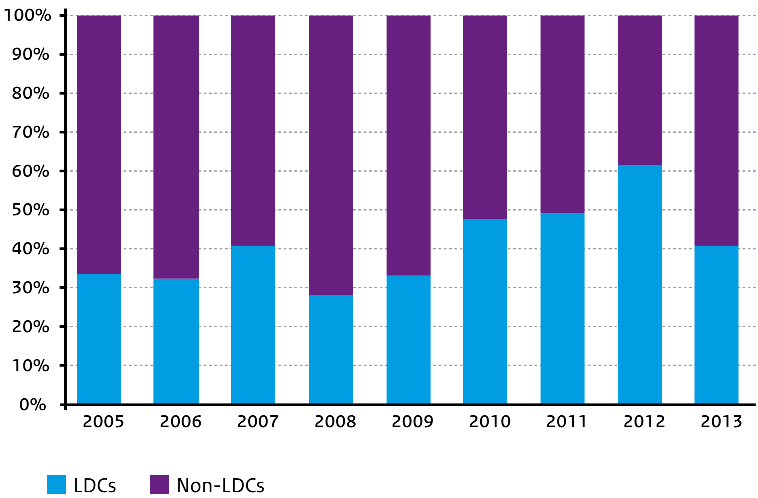


Figure 11 *The Division of Annual Disbursements between LDCs and non-LDCs*



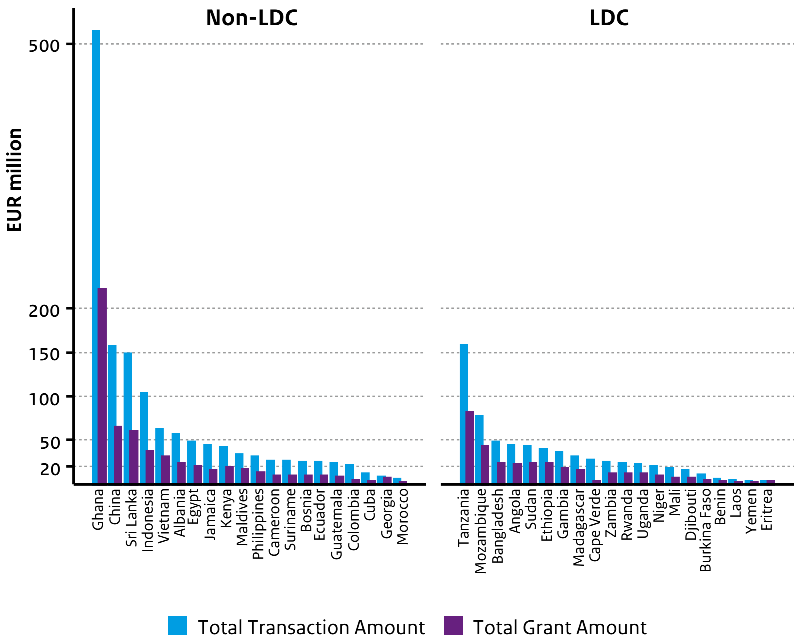
Text box 3 *A Match Made in Heaven*

Ghana and ORET seem to be a match made in heaven. What were the reasons behind the extraordinary success of ORET in Ghana? Was it excellent team play between applicants, the Embassy and the government of Ghana or could it also be a matter of distorted incentives or a combination of both?

Due to the demand-driven character and ORET's pipeline approach of first-come, first-served, applicant companies supported by a proactive Embassy were able to submit many applications and make optimal use of the facility in Ghana: 27 of 139 transactions in the combined portfolio (completed and active) concerned Ghana. ORET was especially attractive for co-financing drinking water treatment plants because of the size of the available and required funding and because of the higher than usual grant element of ORET (50% after 2005). The Ghana Water Company made it easier by publicising what its long-term investment strategy with foreseen water treatment plants would be if funds were available. Many drinking water treatment plants in Ghana have been constructed or rehabilitated with ORET funds making the Netherlands the largest donor in this sector even though water has not been a priority sector in its bilateral aid programme. Other donors operating in the drinking water sector were not able to match the funding conditions and budget volume of ORET.

In other sectors, ORET offered grants of only 35% of the estimated project cost, which was comparable to what was offered by the export programmes of other donors; it became possible to raise this proportion after 2006, after the introduction of the technical assistance facility. Ghana almost always opted for commercial export credits to accompany ORET grants. To date, Ghana has been able to service the outstanding commercial debts related to ORET transactions and has not defaulted on any of them, although it is a struggle – especially given the worsening foreign debt situation. At the insistence of the debt management unit within MOFEP, a moratorium on new external loans was introduced early in 2014 to enable Ghana to maintain a sustainable external debt position. This affects the implementation of ORIO in Ghana.

Figure 12 *Transaction and Grant Amounts per Country (LDCs and non-LDCs combined)*



The policy to enhance the share of LDCs in total grants in ORET after the ORET facility for this group was reopened in 2005 seems to have worked well, both in terms of the number of applications and the size of commitments and disbursements. The growing share of LDCs, however, is largely accounted for by a limited number of large transactions in Tanzania, Mozambique, Bangladesh, Angola, Sudan, Ethiopia and The Gambia.

3.2.3 Beneficiary Sectors

ORET transactions were classified according to 12 sectors. However, being a demand-driven facility, ORET never had any sector preference policy, except for the Water Facility for drinking water and sanitation since 2005, when Minister Van Ardenne considered ORET to be an important vehicle to deliver on her policy commitment under the MDGs to provide people in developing countries access to safe drinking water.

Table 2 gives an overview of the sector allocation of grants in the combined portfolio over the geographical regions, in EUR million. It also shows the contribution (as a percentage) of each sector in terms of the total grants allocated per region, and the contribution of each sector to the grand total of grants. The premium sector is drinking water, which accounts for 25% of all grants (most being in Africa, particularly in Ghana). The health care sector accounts for 18% of all grants, with two companies – Philips Medical Systems and SIMED – taking the lion's share. The transport sector follows, with a 12% share, consisting of

transactions involving buses, tugboats and railway improvements. Wet infrastructure ranks fourth, with 11% of total grants involving the construction of ports and drainage works. The energy sector is fifth (10%), with – among other things – diesel generators for power plants. Together, these five sectors absorbed almost 76% of all grants.

Table 2 Distribution of Allocated Grants (in EUR million) over Sectors and Regions

	Africa	%	Asia	%	Europe C. Asia	%	Latin America	%	*Sector Total*	*Sector %*
Drinking Water	199.3	34%	16.0	6%	15.6	37%			*231.0*	*25%*
Health Care	96.1	16%	55.6	22%	10.2	24%	9.3	17%	*171.2*	*18%*
Wet Infrastructure	48.7	8%	36.1	14%	5.4	13%	9.0	17%	*99.1*	*11%*
Agriculture & Fisheries	23.1	4%	2.2	1%			4.5	8%	*29.8*	*3%*
Transport	56.3	10%	32.5	13%	10.9	26%	16.2	30%	*115.9*	*12%*
Education	7.3	1%	5.9	2%					*13.2*	*1%*
Dry Infrastructure	51.9	9%	16.7	7%					*68.6*	*7%*
Water and Sanitation	9.1	2%	1.2	0%					*10.3*	*1%*
Environment	19.4	3%	14.2	6%					*33.6*	*4%*
Energy	48.0	8%	26.8	10%			15.2	28%	*90.0*	*10%*
Telecommunication	25.7	4%	37.8	15%					*63.5*	*7%*
Other			10.5	4%					*10.5*	*1%*
Total	**584.9**	**100%**	**255.5**	**100%**	**42.1**	**100%**	**54.2**	**100%**	***936.7***	***100%***

Although drinking water and sanitation transactions were always a regular part of the ORET package before 2005, after the introduction of the Water Facility in 2005 there was a significant increase in the number of drinking water transactions and grant amounts committed within ORET. The larger grant element for these transactions in non-LDCs (an increase from 35% to 50%) and the size of the available funds made ORET a very attractive financing proposition for these countries. A comparison between the periods 2001-2004 and 2005-2009 reveals that the number of drinking water applications rose from 5 (one LDC and four non-LDCs) in the first period to 16 (six LDCs and ten non-LDCs) in the second period (see Figure 13). Note that ORET was closed for LDCs in the period 2002-2004.

The cumulative committed grant amounts (based on the date of submission of the application) in this sector also increased: from EUR 83 million in the first period to EUR 148 million in the second period (see Figure 14). This increase was not the result of the growth in the average size of these transactions – this actually decreased, from EUR 33 million to EUR 18 million – but rather of the growing number of applications. Hence it is justifiable to conclude that the financial incentive introduced by the Water Facility did increase the number of drinking water transactions both in LDCs and non-LDCs, even though the LDCs were not offered an additional incentive to opt for water and sanitation projects rather than other projects.

Figure 13 *Drinking Water Applications (Numbers)*

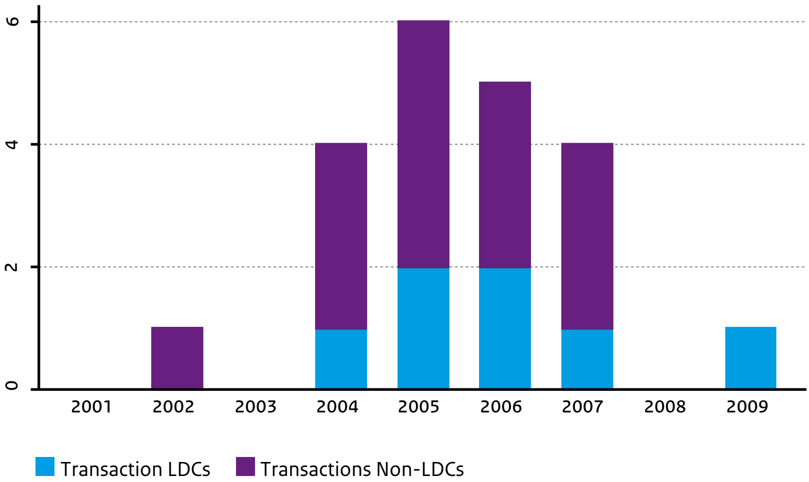
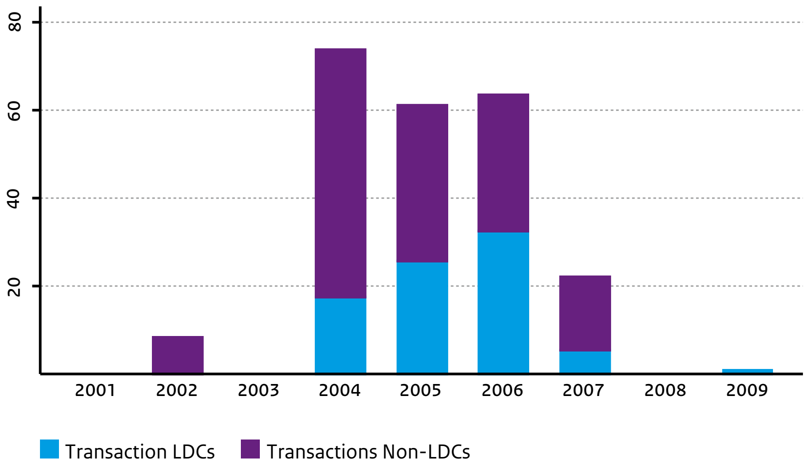


Figure 14 *Drinking Water Transactions (Grants in EUR million)*



3.2.4 Preparing Applications and Implementing ORET Transactions

In 40 applications Dutch applicants made use of the so-called PESP facility of the Ministry of Economic Affairs to co-finance the cost of the mandatory feasibility study for an ORET application. Before June 2006 two thirds of the costs of the feasibility study could be subsidised, up to a maximum of EUR 140,000. Thereafter, only half of the cost, up to a maximum of EUR 135,000, was eligible for a PESP subsidy. The average subsidy was EUR 101,585. This did not guarantee that the application would succeed, however: ten of the applications that made use of a PESP subsidy were rejected.

No clear pattern can be detected in the type of applicant (first time or multiple user, or size of the company) or the size of the transaction that made use of a PESP subsidy: the PESP subsidy does not seem to have been the factor that made any of the 188 applicant companies decide to make use of ORET. In other words, the availability of such a preparatory subsidy facility was not crucial for applicants to succeed. It is possible that most of applicants that did not make use of a PESP subsidy assumed that they could recoup preparatory costs if the grant was provided, even though the ORET regulation explicitly excludes preparatory costs from eligibility for grant funding.

Processing the grant applications took on average 710 days (time between submission of the application and signing of the grant agreement), i.e. almost two years. No pattern in the length of time needed for processing applications can be discerned in relation to sectors, the size of the application or the type of country. The total lead time between the submission of the application and the completion of the transaction (determined by the date on which the final grant decision was issued) was on average 7.5 years (with a standard deviation of 2.7 years). The longest transaction completed in the research period started out as a MILIEV technical assistance and consultancy project in 1994 in Ethiopia. In total it took more than 15 years to complete, due to a development period of more than four years, long delays in the implementation because of administrative problems with various tiers of government and disagreement about some non-implemented activities that held up the certificate of completion.

Somewhat counterintuitively, we find that on average, transactions with an ICB have a shorter total lead time than transactions without an ICB: 6.9 years compared to 7.8 years. These figures on total lead time of transactions, however, do not show the preparatory time the applicant company needed to prepare an application. Transactions prepared with support of a PESP subsidy took slightly longer to complete: eight years on average compared to the average 7.5 of years for the whole portfolio. So the conclusion is that ORET transactions in general took a long time to prepare and to complete, and that this is often inherent to the complex infrastructural projects that ORET funded.

ORET applicants estimated their transaction budgets fairly accurately: the portfolio shows only a relatively small difference between the estimated and final transaction amounts – on average a markdown of EUR 289,000 or only 0.65% of the transaction amount forecast in the application.

ORET also allowed contingency funds to be included in the transaction budgets in case of unforeseen circumstances and expenditures. Before such funds could be used, applicants had to justify the need for them to the implementing agency of ORET and obtain its permission. In more than half of all transactions in the portfolio, the contingency funds were not used. For a quarter of the transactions the definitive size of the contingency funds is still unknown because these transactions are still ongoing. For the remaining quarter of the transactions in which contingency funds were used, the median size of these funds is EUR 283,000, the average is EUR 549,300 and the range is from as little as EUR 210 up to EUR 2,828,026 in the case of the Kwanyaku water supply project in Ghana. If the contingency funds used are expressed as a percentage of the total transaction amount, they range from 0.03% to 11.7%, with an average of 3.7%.

3.2.5 Tender Procedures and Price Checks

Table 3 gives an overview of the procurement regimes used by recipient governments in all 139 transactions in the portfolio. It distinguishes two procurement systems: i. direct award and ii. international competitive bidding (which includes unlimited and limited international bidding or prequalification tenders). The table classifies applicant companies into three categories: i. Dutch companies (incorporated and having local production facilities in the Netherlands); ii. foreign companies; and iii. foreign companies that have established a special financial vehicle in the Netherlands without much substance there but that are eligible for ORET because they are formally Dutch.

Table 3 Procurement Regime of ORET Transactions

		Direct Award	ICB	Total
LDC	Foreign company	2	7	**9**
	Dutch company	22	11	**33**
	Special financial vehicle	1	0	**1**
	Subtotal	25	18	**43**
Non-LDC	Foreign company	0	0	**0**
	Dutch company	66	25	**91**
	Special financial vehicle	3	2	**5**
	Subtotal	69	27	**96**
	Total	**94**	**45**	**139**

Of the 18 transactions in the completed and active portfolio where LDCs organised ICBs, Dutch companies won 11 tenders. In 69 of the 96 applications in non-LDCs, the tender method used was direct award. In Table 3, however, note the relatively high number of 27 ICBs organised in non-LDCs while ORET was a tied aid instrument for this category. These ICBs were for certain transactions in Albania, Bosnia, Cameroon, China, Colombia, Egypt, Ghana, Indonesia, Jamaica, Morocco and Sri Lanka and came about because the end users involved in these recipient countries organised forms of international bidding (sometimes with funding as part of the tender) or because national procurement legislation prescribed such bidding. It seems that this form of international bidding was not applied as a rule,

because most of the ORET transactions in those non-LDCs was based on direct award. In 26 of the 27 ICB-based transactions, the tender was won by a Dutch company, which raises questions about the contestability of those ICBs. The only exception in this category was Ghana where Tahal BV, an Israeli water company, won the ICB for a water treatment plant. In this case Tahal had also established a special financial vehicle in the Netherlands in order to become eligible as a Dutch company. In addition, it was in a good position to bid because of its involvement in preparing a strategic investment strategy for the Ghana Water Company in 1998 and updating it in 2007.

Over time the formal untying of ORET for LDCs led to more foreign companies that are not incorporated in the Netherlands winning international tenders organised for ORET transactions, i.e. nine out of 43, plus one special financial vehicle. The total number of winning foreign companies for both groups of beneficiary countries remains modest, however: out of a total of 139 transactions only nine were won by foreign companies (in nine LDCs). Six (in one LDC and five non-LDCs) transactions were won and implemented by special financial vehicles incorporated in the Netherlands.

Of the 139 transactions in the research period, in 133 (93 of which were direct awards and 40 were ICBs) a price/quality check was done by an independent price consultant hired and paid by ORET.

3.2.6 Minimum Dutch Content

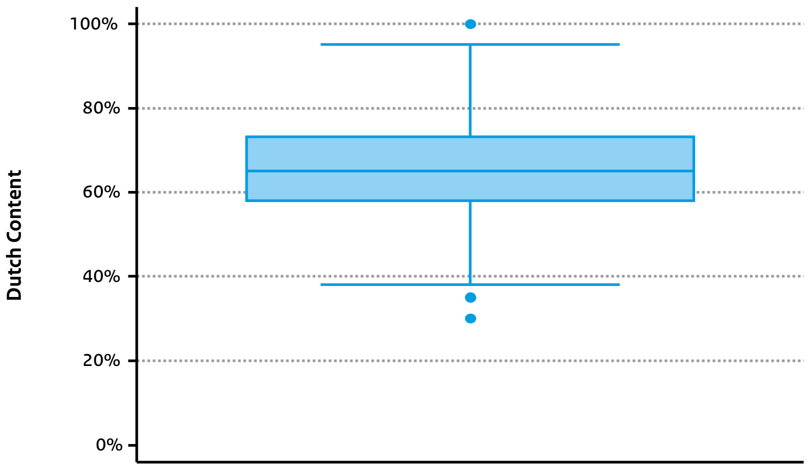
Meeting the minimum Dutch content of 60% was a formal requirement for all ORET applications before 2005. This condition was also checked by an external accountant as part of the formal completion of a transaction. After ORET was reopened for applications from LDCs in February 2005 as an untied instrument, the content rule only applied to applications for non-LDCs. The minimum Dutch content requirement was lowered from 60% to 50% in the same 2005 ORET Regulation.

The actual Dutch content of the transactions in the portfolio is 66% on average, based on data supplied by the applicants and verified by the external accountants upon completion. We also analysed the variance among transactions regarding Dutch content (see Figure 15). The box in the middle of Figure 15 represents the middle 50% (the second and third quartiles between 25-75%) of all transactions with a Dutch content varying between 58-73% and a median of 65%. This illustrates that the variance regarding proportion of Dutch content is quite limited.

We also explored the possible relationships between proportion of Dutch content and other variables such as country classification and type of procurement process. We found remarkable differences between transactions in the group of LDCs versus non-LDCs and between transactions with direct award or ICB (see Figure 16). Considering transactions without ICB in non-LDCs (first box on the left) we find outlier values for Dutch content as low as 35% and as high as 95%. The median value for this subgroup is 62%, while 50% of all transactions in the second and third quartiles in this subgroup are in the range from 56-67%. If we compare this subgroup with transactions without ICB but in LDCs (second

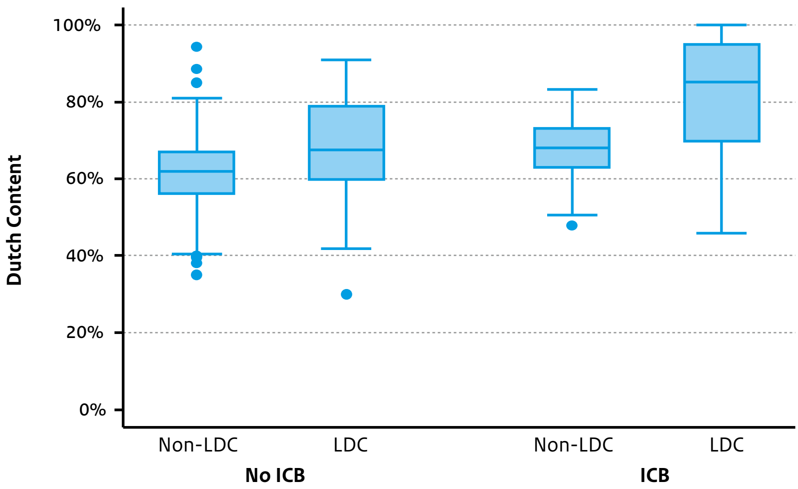
box), we note that the median value for Dutch content is higher (at 68%) while the second and third quartile are in the range from 60-79%. Hence the Dutch content in the tied aid subgroups without ICB is higher in LDCs than in non-LDCs, thereby refuting, with hindsight, the concern of the Dutch business sector over more emphasis on LDCs and the need for an initial 30% ceiling for the proportion of grants for transactions for LDCs, to avoid less return to the Netherlands.

Figure 15 *Dutch Content of All ORET Transactions*



We also looked at transactions with an ICB in non-LDCs (third box in Figure 16). This subgroup shows a median value of 68% while the second and third quartiles range from 63-73%. The fourth subgroup consist of transactions in LDCs with an ICB. Here the median is 85% and the second and third quartiles range between 70-95%: these are the highest percentages of all subgroups. In this subgroup there are even Dutch content values as high as 100%. These findings demonstrate that the full untying of ORET in the case of LDCs in 2005 did not negatively affect the proportion of Dutch content in transactions. Moreover, when recipient non-LDC countries organised ICBs for transactions the Dutch content was also higher than in transactions that were directly awarded. So, having more competition in the tender procedure seems not to have disadvantaged the Dutch content.

Figure 16 *Dutch Content per Category and Procurement*



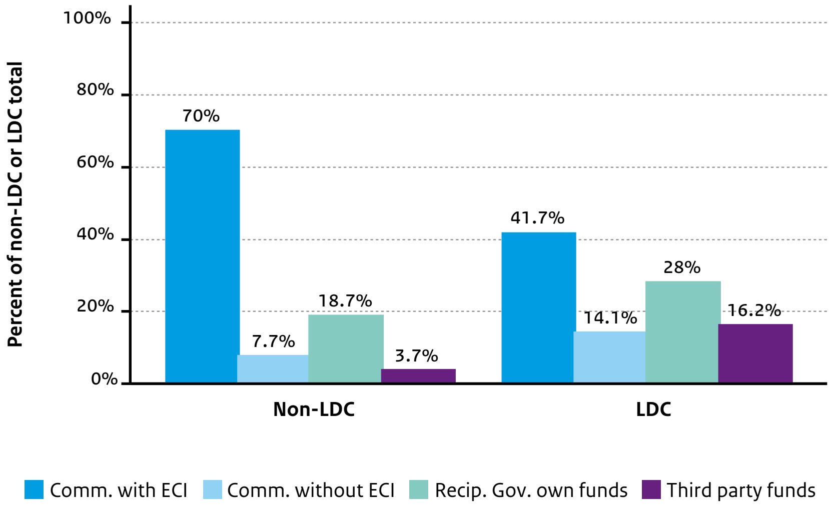
Meeting the required minimum Dutch content was a real challenge for applicants in some cases, especially if there were few Dutch suppliers for certain inputs or equipment. In other applications the nationality of the applicant and therefore its eligibility for ORET was an issue. In an application for Ghana submitted in 2003, for instance, the eligibility of the foreign (Austrian) applicant was discussed. At the time, the company had only established itself as a special financial vehicle and did not have much substance in the Netherlands. Despite this, the application (GH000127) in the health sector was approved, but it subsequently triggered some creative accounting in order to be able to meet the required minimum Dutch content of 50% for non-LDCs. This was done by counting cost categories such as the cost of finance of the commercial credit, the overhead cost of the company and the profit of the transaction as Dutch content.

3.2.7 The Non-Grant Funding and Insurance of ORET Transactions

The non-grant funding of an ORET transaction could take one of several forms or a combination of them: a long-term export credit from a Dutch or local bank, trade finance in the form of a short-term supplier's credit by the applicant or a short-term letter of credit (a guarantee by the recipient's bank to the exporter for payment upon delivery), and sometimes even own funds from the recipient country, from either the national budget or other donors. Figure 17 portrays the shares of the various sources in the total non-grant funding for all 139 transactions in the portfolio, distiguishing between non-LDCs and LDCs. It shows that the total non-grant funds for 96 transactions in non-LDCs were sourced as follows: 70% from commercial loans insured by Atradius DSB (either under the regular ECI or the additional GOM facility, see below), 7.7% from uninsured commercial loans, 18.7% from the own funds of the recipient country and 3.7% from third party funds.

Surprisingly, sources other than insured export credits by ECI/GOM form a much higher proportion of the total non-grant funds of 43 transactions in LDCs, especially the combination of the own budget of the recipient country (28%) and third party funds (16.2%) (from other bilateral and multilateral donors). Apart from the obvious reason that LDCs needed less non-grant financing for their transactions because at least 50% came from ORET grants, one explanation could be that LDCs have more access to other donor funds. Another explanation could be that non-LDCs were regarded more creditworthy by banks and Atradius DSB and therefore had better access to longer-term insured commercial export credits. But this does not explain the much larger share of LDCs' own budget sources in non-grant funding. One reason for this difference could be that the higher policy priority that the ORET transactions had for this group of recipients made them willing to come forward with their own budget resources. Assuring the allocations of budgets from the recipient countries over a longer term was of course a challenge, not only for the LDCs.

Figure 17 *Shares of Sources of Non-Grant Funding (n=139)*



When we look at the issue of insurance of the commercial funds in more detail, we see that insurance against the credit risk of non-payment was not always the standard modus operandi, especially for the LDCs. Table 4 shows that of the 96 transactions for non-LDCs, 69 were insured by Atradius DSB against the credit risk of non-payment (ECI) while 27 were not insured. A possible reason for this last category could be that the funds came from the non-LDCs' own budget resources (as in the case of the medical equipment project in Tanzania) or from supplier and other short-term bank credits that were not insured. Of the 43 transactions in LDCs, only 19 were insured and 24 were not insured. This is probably an indication of the limited coverage by Atradius DSB for this group of countries and of the availability of other sources of non-grant funding that did not need insurance against the credit risk.

Table 4	Non-Grant Funds and Insurance		
	Non-LDC	LDC	Total
No ECI	27	24	**51**
ECI	69	19	**88**
Total	**96**	**43**	**139**

The various sources of non-grant funding, if available to a recipient country, each had their own cost structure consisting of the one-off finance costs of acquiring and insuring a loan and the debt service cost (interest and amortisation payments). The level of these financing costs depended, among other things, on the duration of the desired credit, the creditworthiness of the recipient or end user, the stipulation that in order to receive the long-term loan the credit risk be insured with Atradius DSB, the level of insurance coverage provided for a recipient country, and the competition between commercial sources. In the great majority of longer-term commercial loans, the Ministry of Finance of the recipient countries was the signatory of the loan agreement and the guarantor for the debt servicing of the loan. In most cases, it would have been more expensive to obtain longer-term (up to ten years) export credits from commercial banks and this would also have required export credit insurance from Atradius DSB to cover the risk of non-payment. It would have been essential for the Dutch banks to be involved. Such loans would carry one-off finance costs to arrange the funding, in addition to the recurrent costs of the interest charges and the amortisation of the loan.

Insurance coverage was arranged under the regular export credit insurance ECI implemented by Atradius DSB on behalf of the Dutch Ministry of Finance. Under the Emerging Markets Guarantee Facility (GOM) it was possible to arrange credit insurance coverage for ORET transactions in ORET-eligible countries with higher risk where the regular ECI would not be available, or in ECI countries where the maximum country exposure had been reached. GOM was an additional export credit facility funded from the budget of the Ministry of Economic Affairs but implemented by Atradius DSB. Under GOM, an export transaction was assessed against the usual ECI terms, with the exception of the country risk. In 2008, the GOM facility was abolished and replaced by an ECI policy that was better accessible for more countries and had higher exposure ceilings. The accumulated GOM reserves were transferred to the Ministry of Finance without having borne one claim for damage.

According to Atradius DSB, the main risk of ORET transactions that needed insurance was the credit risk of non-payment of the debt service on the loan. Often this insurance policy was combined with insurance against the manufacturing risk (in the case of the delivery of capital goods such as ships) or the construction project risk (in the case of construction works). Sometimes additional coverage was provided against the risk of correct or incorrect calling by the client of guarantees provided by the exporter or bank such as the deposit for implementation. Atradius DSB calculated the insurance premium for the credit risk as the sum of two parts: (i) the premium over the non-grant amount on the basis of the country risk of the recipient country; and (ii) the premium for the risk that the grant amount would not be disbursed, based on the credit risk classification of a Dutch municipality.

We find it incomprehensible that Atradius DSB, acting on behalf of the State, charged the exporting company an insurance premium over the grant amount against the risk of non-performance by another mandated state agency ORET. Even though the amount was small, it added to the total costs of the transaction and was eligible for compensation from the grant for 75%. In this case there was no credit risk of non-repayment because it concerned a grant. Why would ORET not disburse the ORET grant after first having approved it? According to Atradius DSB the same still applies for ORIO, and the Ministry is not aware of this practice. Possible problems in the implementation of the transaction that would have required the grant disbursement to be suspended would have been covered by the other risk insurance policies issued by Atradius DSB, such as the manufacturing and construction risks policies. The premiums for the manufacturing- and construction risk are usually calculated over the whole transaction amount during the period of delivery of the capital good or construction of the works. The most important factors determining the premium level for the credit risk over the non-grant amount are the country risk classification of the recipient determined by the OECD Consensus and the desired duration of the credit. For longer periods of after-financing, higher insurance premiums were charged. The credit risk premium usually made up the bulk of the insurance costs of Atradius DSB.

Most one-off finance costs incurred prior to the conclusion of the transaction could be funded partly (up to 75%) from the ORET grant. Eligible items were all insurance premiums charged by Atradius DSB for the credit risk of the loan not being repaid, the credit risk of ORET not disbursing the grant, the manufacturing and construction risks during implementation, and the fees charged by the bank for loan management, down payment and the commitment of the full loan amount. One-off bank fees were calculated as a flat rate for the entire loan amount and a commitment fee over not yet disbursed funds and could in total vary between 1% and 2% of the loan amount. The compensable bank costs did not include the debt service of the loan. This consisted of interest payments charged on the outstanding loan, usually determined on the basis of the variable Euribor rate plus a fixed[9] margin based on the country risk and the duration of the credit, plus the amortisation payments. Some banks offered the option of fixing the interest rate for the remaining financing period after completion of construction or delivery. Usually the costs of insuring against the credit risk were responsible for most of the total one-off finance costs.

There were only a few exceptions to this relatively simple financing method of combining a grant with a commercial loan in a mixed credit. In those cases the ORET grant was used as an interest subsidy to soften the commercial loan for the full transaction amount. The format of a concessional loan was only applied in two transactions – in Sri Lanka, at that country's request. The ORET Regulation provided for this option of blended finance in the form of a concessional loan. In the case of the two transactions in Sri Lanka, the primary reason for opting for the blended loan lay in the IMF arrangement at the time that limited the contracting of foreign commercial loans by the country. The blended format, however, did raise the total transaction amounts considerably. There were two reasons for this: the

9 The evaluation is unable to provide a complete overview of the interest charges, the country margins and the grace and repayment periods of the commercial loans since the definitive loan documents were not part of the ORET dossiers and are not public documents.

higher one-off finance costs because the insurance premium and the bank fees were now calculated over the full amount of the transaction, and the interest payments over the commercial loan being changed into eligible transaction costs. From the perspective of the recipient, being compensated for some of these interest costs on the higher loan may have been attractive but this came with much higher one-off finance costs over the full loan amount, especially because of higher insurance cost (see annex 8.10 and annex 8.11 for the financing structure of the two transactions that were part of our sample).

Before 2005, the percentage available for compensation of one-off bank fees and insurance costs from the grant corresponded to the grant percentage of the underlying transaction (35% for non-LDCs and 50% for LDCs). Under the 2005 ORET Regulation, the one-off finance costs became part of the transaction amount and could be compensated from the grant up to a level of 75%. The 2005 Regulation prescribed that these one-off costs could be compensated only if the financing terms were market-compatible. Remarkably, no price check or comparison with what was on offer in the market was done when it came to the commercial financing or the costs of insurance for the export credit by Atradius DSB, which held the monopoly in the long-term insurance of export credits. Only a few recipients such as Ghana shopped around by requesting quotes from the Dutch banks offering such lending.

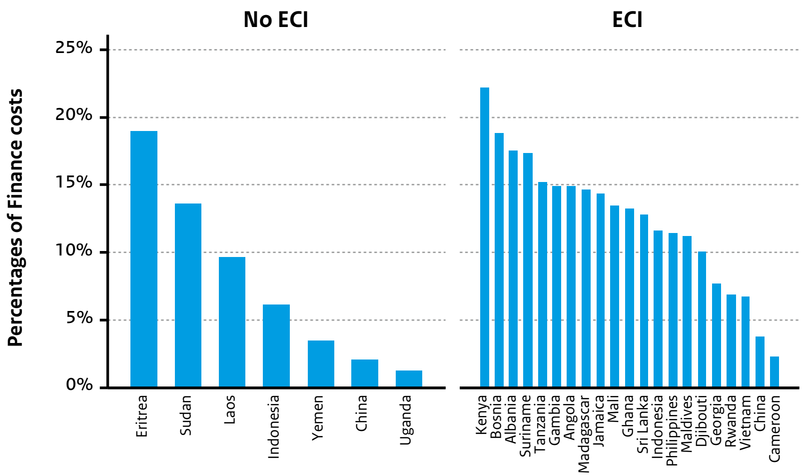
The one-off financing costs for the transactions in the combined portfolio ranged from EUR 0 in the case of the recipient government funding from its own budget resources[10] to the maximum of EUR 3,627,500 to secure long-term commercial export credits. For the whole portfolio, the simple average of the one-off finance costs is EUR 704,114 while the median is EUR 102,146. Expressed as a percentage of the non-grant funding, the one-off finance costs range between 0% for transactions co-financed with the recipient country's government's own budget resources to the extremely high proportion of 27.8% for a transaction in the health sector in Kenya; the average for the whole portfolio was 9.1%. The level of the insurance premium was also mentioned in the evaluation of the SENO/GOM facility, and was described as substantial, with percentages up to 15% of the transaction value (Berndsen et al., 2007). In total, EUR 92 million was spent on one-off finance costs and was financed from the total grant amount of EUR 936 million in order to secure EUR 1154 million of non-grant funding to finance a total transaction amount of EUR 2090 million for 139 transactions.

While the non-grant funding had the benefit of leveraging the ORET grants and the size of financeable transactions, it came at a price when commercial loans were involved, especially when they were insured against the credit risk. In transactions with other sources for financing the non-grant part, such as a letter of credit of a domestic bank, no detailed information is available about the financing cost if no claim was made to have the one-off costs compensated from the grant. The relatively high price and the variance in the one-off costs of non-grant financing of all ORET-transactions are striking.

10 This observation is made from the perspective of the ORET programme. Recipient governments may of course have incurred other costs (including opportunity costs) when financing their part of the ORET-transaction from their own budget or with a domestic bank loan but we have no information on these financing costs.

Figure 18 gives an overview of the simple average of the one-off finance costs on the ORET transactions per recipient country, with a distinction being made between the 51 non-insured (no ECI) transactions and the 88 insured (ECI) transactions. For certain countries, such as Kenya, account has to be taken of the limited number of transactions; note that Indonesia and China appear in both categories of acquiring insured and non-insured non-grant funding. No clear relationship can be discerned between the average cost of non-grant funding and the income status, the creditworthiness of recipient countries or the type of transaction, although on the whole the average finance cost seems to be lower for the non-insured funds. We cannot say whether the insurance coverage resulted in lower interest charges over the insured loan compared to non-insured loans, or whether it provided access to capital otherwise not available, because no information is available on the contract details of these loans.

Figure 18 *The Average One-off Finance Costs of Non-grant Funding per Recipient Country*



Even when the risks in underlying transactions are more or less the same, we still find some variance in the one-off costs. Due to a lack of data from Atradius DSB for the whole portfolio, we have only been able to consider in more detail the five water transactions in Ghana included in our sample. Here there are hardly any differences between the transactions, because the sector, the end user and the recipient country are the same and the periods in which the loans and the insurance policies were acquired, largely overlap. In all five water transactions in Ghana included in our sample, the non-grant finance consisted of insured long-term (10 year) export credits provided by Dutch banks. However, the one-off total finance costs of these transactions ranged from 15.0% for Kwanyaku II to 20.2% for Kasoa of the commercial loans, with the bulk of those cost (75-95%) arising from the insurance premiums for the credit risk and the manufacturing risk. Annex 8.2 gives further details on the insurance- and bank cost for these five water transactions.

A very special exception to the financing methods of mixing an ORET grant with export credits (whether or not insured) is formed by the transaction involving the Al Manara water treatment plant (AMWC) in Khartoum (SD0003). Funding for this huge project of EUR 88 million was secured by an innovative combination of EUR 64 million 'soft' loans from government-backed development banks in the Netherlands (FMO), South Africa (IDC) and Malaysia (Mexim), together with a EUR 24 million grant from ORET. When the funding for the transaction was being arranged, FMO was responsible for managing ORET and the LDC Infrastructure Fund (IDF). FMO used both funds as the Dutch financing sources for this transaction. While the underlying BOOT (build, operate, own and transfer) contract for AMWC offered the benefit of a huge investment with little capital outlay up front for the end user KWSC, it did not provide a magic solution. Some basic flaws in the financial design shifted problems to the future. The most important problem was and remains the currency mismatch between, on the one hand, the euro-denominated loans and water tariffs that KWSC has to pay to AMWC (in particular the capacity charge for the plant) and, on the other hand, the intended repayments and interest charges on the soft loans from water revenues of newly connected customers that are made in local currency (see further Annex 8.3). The project has faced almost continuous payment problems, especially after the huge depreciation of the Sudanese currency.

The most remarkable finding in the context of insuring ORET-associated risks is the almost negligible number of transactions (only two) in our research portfolio for which Atradius DSB had to make limited compensation payments under the concluded insurance contracts[11]. This concerned partial and small payments for the following transactions: (i) an amount of EUR 228,772 under the construction project insurance policy for the transaction GE0003 in Georgia because the project had to be temporarily suspended and heavy quipment had to be demobilised due to a *force majeure* caused by the invasion by Russia; and (ii) an amount of EUR 15,211 under the construction project insurance policy for the transaction GT00017 in Guatemala, due to accumulated interest arrears caused by a late payment from own budget resources.

Since 1992 there were eight other cases of which four fall outside our research portfolio. Of these eight cases, one transaction in Ghana for road construction (that started in 1998) resulted in a net damage of EUR 9,956,862 for Atradius DSB. This amount and the remaining outstanding debt were cancelled in a multilateral debt restructuring in the Paris Club for Ghana in 2004. These amounts were, however, fully charged against the budget for development cooperation under the Dutch budget rules for debt cancellation of bilateral official loans to developing countries. In seven other transactions, damage dossiers were opened by Atradius DSB or its predecessor NCM because of payment delays. In five of these seven cases, the obligations were paid in full by the debtors within the mandatory waiting period. In the two remaining cases, Atradius DSB compensated the implementing companies for their damage, but was able to fully recover these amounts from the debtors. Hence all seven cases resulted in zero net damages for ECI.

11 Data provided to IOB by Atradius DSB and the Ministry of Finance.

So in our research portfolio a credit-related net damage arose for only one transaction: it was minor and the relatively small accumulated arrears on the payment due were subsequently recovered from Guatemala. None of the recipient countries ever fully defaulted on the 88 export credits related to ORET transactions in the portfolio that were insured by Atradius DSB. It seems that these loans behave as a special credit risk category. Providing ORET-related export credits and insuring them against the risk of non-payment of the debt service obligations were attractive and almost risk-free propositions for the financing banks and the state insurance agency acting on behalf of the Ministry of Finance.

3.2.8 Enhancing the Sustainability of ORET Transactions

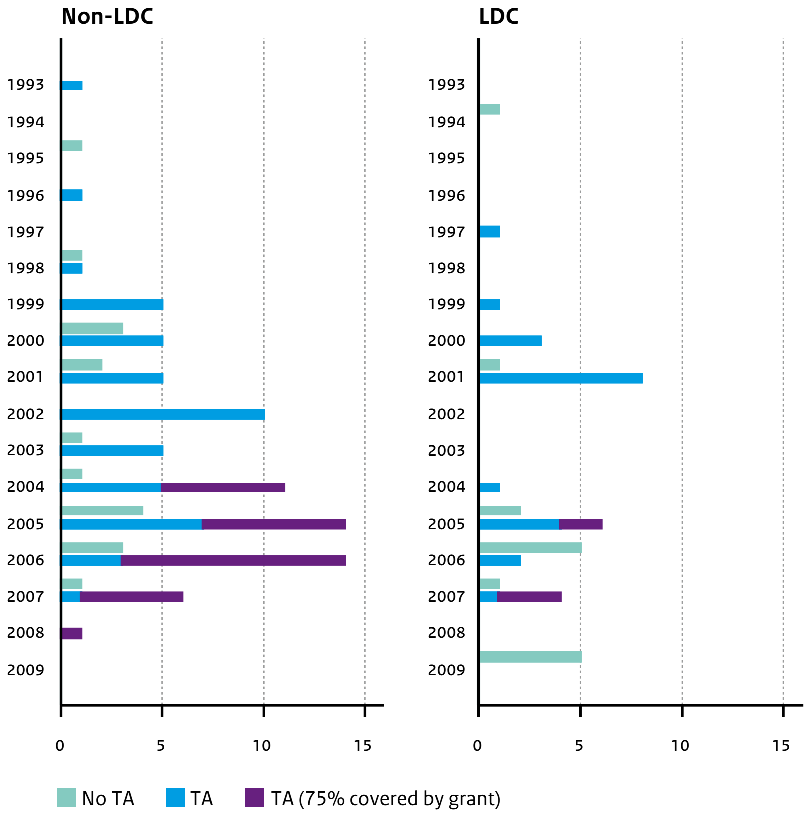
Early on in the implementation of ORET it was realised that successful investments in sustainable socio-economic infrastructure required more than just the delivery of capital goods from the Netherlands. Components such as technical assistance, supply of spare parts, training and maintenance and institutional strengthening were increasingly included in the design of ORET transactions in order to enhance their sustainability. A provision introduced in 2005, with the explicit aim of producing longer-lasting effects of transactions, was that a transaction could qualify for additional grant funds to cover up to 75% of the cost of longer-term maintenance and management support of the end user. Before 2005, technical assistance and maintenance were already part of a number of transactions but their financing usually followed the financing terms of the transaction (i.e. covered to a maximum of 35% or 50%) and only for the period foreseen for completion of the transaction. The option of exceeding these limits for technical assistance had already been introduced in the 2002 ORET regulation (without mentioning actual figures) but had rarely been used. From 2004 onwards FMO made it a regular part of the design of ORET transactions, a practice that was more or less codified in the 2005 amendment of the ORET programme that also was reopened for LDCs at that time.

The new technical assistance arrangement was explicit in allowing additional years (up to five years after completion) and providing extra grant funds (up to 75% of eligible cost) to finance technical assistance, maintenance and the capacity building of the end user. It resulted in more applications with additional technical assistance and maintenance: of the 139 transactions in the portfolio, 77% included some form of technical assistance and maintenance. This trend is confirmed by the survey of applicant companies: 79% of the responding applicants stated that their transactions included elements to strengthen sustainability.

Something unexpected surfaces when we analyse the inclusion of technical assistance in the design and use of the new technical assistance facility per country category (see Figure 19). The emphasis of incorporating technical assistance and using the new facility was clearly directed more towards transactions in non-LDCs than to transactions in LDCs. For all transactions in non-LDCs, 82% included a form of technical assistance and 32% of these made use of the 75% grant facility. For all transactions in LDCs, 63% included a technical assistance component but only 12% of these made use of the 75% grant facility for TA. Figure 19 also shows the numbers of transactions per year of submission of the application for three categories for both LDCs and non-LDCs: orange indicates no technical assistance, light blue indicates regular technical assistance, and dark blue indicates use was made of the 75% TA facility. So in 2006, in non-LDCs three transactions did not have TA, three

transactions included regular TA while 11 transactions made use of the 75% facility. For LDCs, the numbers in 2006 are much lower: respectively five, two and zero. That seems to be the general picture for the LDC group from 2005 onwards. Only two transactions in 2005 and three transactions in 2007 made use of the extra TA, yet one would expect end users in these countries to be the primary target group of this facility.

Figure 19 *Number of Transactions with and without Technical Assistance (TA), per year of submission*



3.3 Applications Rejected or Not Considered

Some applications such as GH000126 on rehabilitation of a regional hospital in Tamale and KE/GZ07010 on teaching colleges in Kenia were only approved after significant modifications. Other applications were rejected for a variety of reasons. During the evaluation period 2007-2012, a total of 49 applications were rejected and further 24 applications were not considered by ORET. Table 5 lists the reasons for rejection or for not even considering an application. Of the 73 applications, only eight (11%) were rejected on substantive grounds; the other 65 applications (89%) were rejected for procedural or financial/budgetary reasons.

A key test in ORET is that the transaction should contribute to sustainable economic development. Five applications were considered not to be relevant in that regard. In Ghana an application for communication systems between Takoradi, Dunkwa and Kumasi by Draka Comteq Telecom (proposed grant amount of EUR 6 million) was considered developmentally non-relevant, and also technically and financially non-sustainable. In addition, doubts were voiced about the institutional capacity of the end user. In Namibia an application for the construction of a wind farm by Emergya Wind Technologies (EWT) (proposed grant amount of EUR 15 million) was rejected due to insufficient technical and financial sustainability. There were also doubts about whether the client would be able to manage the project after completion. These arguments were disputed by EWT even after appeal. In an interview EWT was especially critical about the length of time between submission and rejection of their application. A third application involving the construction of the Water Treatment Plant in Wa, Ghana by Coman Engeneering & Contracting (proposed grant amount of EUR 20.5 million) was rejected because it was considered too expensive and financially unsustainable; furthermore the applicant was thought to be not sufficiently experienced. Two other proposals – the reconstruction of the Clinical Centre of Banja Luka in Bosnia and Herzegovina by VAMED (proposed grant amount of EUR 18 million), and the Kalangala Infrastructure Project in Uganda by InfraCo (proposed grant amount of EUR 15 million) – were rejected on the grounds of economic non-sustainability and negative environmental impacts.

Table 5	Reasons for Rejecting Applications	
Substantive reasons		
Developmentally non-relevant	5	7%
Commercially viable	3	4%
Procedural and financial reasons		
Budget ceiling surpassed	29	40%
Incomplete application	18	25%
Preliminary offer expired	10	14%
Grant agreement expired	5	7%
Tender not conforming to OECD rules	2	3%
Split into separate lots	1	1%
Total	**73**	**100%**

Three applications were rejected because they did not pass the commercial non-viability test. The Kigamboni Bridge in Dar es Salaam (proposed grant amount of EUR 23 million) was considered to be commercially viable. In addition, the capacity of the proposed bridge was believed to be too large in relation to the expected traffic. The bridge is now being constructed by Chinese companies and funded by the National Social Security Fund (60%) and the government of Tanzania (40%). The second application, involving the delivery of city buses to Sudan by Scania (proposed grant amount of EUR 12 million), was withdrawn by the applicant while the advisory committee expressed doubts about the environmental aspects. The third rejected application concerned a renewable energy and rural electrification project in Cambodia by Topec (proposed grant amount of EUR 3 million) that was also considered to be commercially viable.

Twenty-four applications were rejected because the budget ceiling imposed in August 2007 had been surpassed. These applications would have received a total grant amount of EUR 206 million if they had been approved after appraisal and budget would had been available. In the same year five applications for Indonesia, with an expected grant amount totalling EUR 48 million, were rejected because the budget ceiling for one country in a year had already been exceeded. For these 29 rejected transactions it is therefore not possible to report on their completeness, development relevance or other substantive elements because the applications never entered the appraisal process. A quarter of the total of rejected applications were rejected due to incompleteness even after the applicants had been given more than the standard four weeks to complete the dossier.

Ten cases were nullified due to expiry of the term of the Preliminary Offer to the applicant, a further five were annulled because the Grant Agreement with the recipient government had expired. It seems plausible that the annulment of the 15 transactions mostly resulted from problems in arranging the prerequisite of non-grant financing. However, the transaction dossiers lack concrete information about the dominant reason for the annulment. Other reasons may have been a change in priorities or unwillingness of the recipient government or the applicant to pursue the project further.

In cases where the problem was the lack of non-grant funding it is unknown whether this was caused by the inability to acquire insurance coverage from Atradius DSB, either for the recipient country or for the specific transaction because of other outstanding insurance policies on the country.The number of 15 null and void transactions could nevertheless be considered as the ceiling for applications that faced problems in arranging the required non-grant financing. It is striking that most null and void transactions occurred in non-LDCs. Given the total of 154 (139 + 15) ORET transactions this number seems a relatively modest share: 9.7%.

For untied ORET transactions, the contracting procedure had to conform with the OECD requirements as specified in 'Good Procurement Practices for Official Development Assistance' (OECD, 1986). Two related applications for the control of Typha and Erosion in the Senegal River by Haskoning and Van Den Herik Kust- & Oeverwerken (combined proposed grant amount of EUR 23.5 million) were rejected due to their failure to meet these OECD requirements. Neither the required minimum time for response nor full disclosure for the international bidding procedure were sufficiently ensured. One application was classified as rejected because it was split into two lots during appraisal in 2012. The project aimed to strengthen the electricity production and distribution on four islands of Cape Verde. The two lots replaced the original application and are two separate active transactions.

ORET.nl provided for a complaints procedure (internal, involving a complaints committee), an appeal procedure (to an independent Administrative Court in the context of the General Subsidy Law) in the event that an applicant objected to the decision of the complaints committee, and thereafter a higher appeal to the highest National Administrative Court. With the growth in the number of applications and the introduction of a budget ceiling, the

number of complaints also rose: from 17 in 2007 to 22 in 2008. Most complaints in 2007 and 2008 were related to rejections due to exceeding the budget ceiling and were found to be unjustified. Only six complaints were found to be justified or partly justified. Sometimes complaints were found to be justified on appeal or partly justified due to improper motivation of the rejection and then referred to ORET.nl for action, or matters were settled amicably.

3.4 ORET Applicants

Under ORET, the supplying company was both the formal applicant for the ORET grant and its recipient in practice, as ORET transferred batches of this amount directly to the company, depending on whether or not the project achieved the agreed milestones in the contract. Combining the completed and active portfolio, Figure 20 lists all 56 companies that have completed ORET transactions or still have active ORET transactions from 2007 onwards. Most transactions were submitted before 2007; a few date back to as far as 1993. The figure shows both the cumulative amounts of the ORET grants that these companies received over the lifetime of these transactions and the number of transactions (in brackets). Damen Shipyards leads, with the highest grant amount of EUR 81 million for ten transactions, while SIMED has the most transactions (16), for a total grant amount of EUR 73 million.

A considerable number of companies (24) have been re-users of ORET in terms of the number of their ORET-funded transactions, sometimes in the same country (particularly in Ghana, China and Tanzania). In the ORET company survey, 63% of the responding companies said they had previously ORET funds, 22% for a transaction within the same country and 41% for a transaction in a different country. Within the group of re-users, six companies received more than EUR 50 million, of which five are of Dutch origin (Damen, Interbeton, Philips, SIMED and Wärtsilä) and one is foreign (Biwater).

The seven sectors in which the main re-users are concentrated have been the mainstay for ORET for many years and are health care, agriculture and fisheries, transport, wet infrastructure, environment, dry infrastructure, and water and sanitation and drinking water. Most users and re-users of ORET are relatively large Dutch multinational companies that often were already active in developing country markets, including those targeted by the specific ORET transaction. Approximately two out of three responding companies in the company survey said they were already active in the country before the ORET transaction took place. Taking account of the non-response to our company survey, ORET seems to have facilitated the first entry into a foreign market for only a few companies. At the same time, very few companies on the list of applicants can be regarded as a SME. This is not surprising and agrees with the fact that executing complex infrastructure works successfully under difficult circumstances usually requires companies of a certain size and preferably with local experience in developing countries.

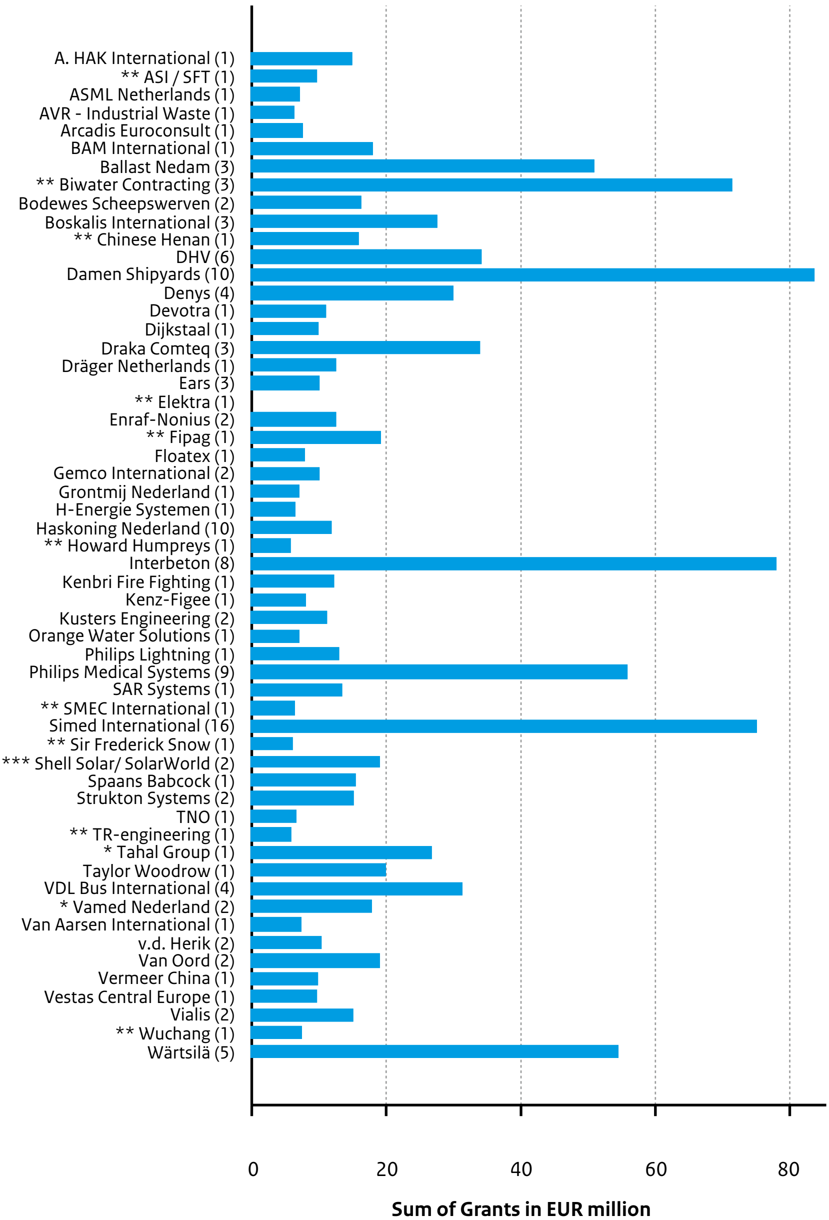
Some companies, such as DHV and Royal Haskoning, received several ORET consultancy contracts as ‘resident engineer’ of the recipient government or the end user. Their task was

to supervise the implementation of a related ORET transaction and/or to provide training and technical assistance, especially in the case of infrastructure works and water treatment plants. These supervision contracts were not always concluded separately and under a separate grant agreement with the end user. If these contracts were part and parcel of the related infrastructure works contract, there was a risk of a conflict of interests, especially if the consultancy firm was also involved in the feasibility study and the delivery of technical assistance, as for example in the Champerico project in Guatemala (see Annex 8.6) or in the Barakese water treatment plant in Ghana (see Annex 8.2). It is difficult to see a consistent policy of ORET.nl in their decision making to hire a supervisor and/or separate supervision contracts (usually concluded with a Dutch consultancy firm) from the main contract, either in terms of the complexity of the transaction, or in terms of the experience of the applicant or knowledge of the end user and the recipient country.

With regard to the nationality of all applicant companies, nine of the 57 applicants are not of Dutch origin. Only a small number of foreign companies managed to win the international tenders in the case of untied ORET funds for LDCs (list B), particularly after May 2006 (which was when ICB was prescribed) and in cases where the end users in non-LDCs also employed ICB. According to the independent approval committee of ORET.nl, an application with ICB was not treated much differently from tied, direct award transactions. In practice a Dutch company would still act as the driving force behind the application, taking the lead in project development while taking the risk of losing the ICB procedure, especially in the case of a LDC. Some transactions for LDCs in the completed portfolio were treated as tied aid transactions because of the procurement rules that were valid at the time of the first submission before October 2001, i.e. the date of the OECD decision to untie aid for this category. The same was applicable in the period January 2005 to May 2006 when – according to the OECD/DAC – ORET still had a *de facto* tied procedure for LDCs even though the programme had reopened for this category.

Several Dutch companies that were applicants in the case of tied ORET funds for non-LDCs (list A) could be regarded as foreign companies, e.g. the Israeli-based Tahal BV and the UK/South African Biwater in water projects in Ghana and the Austrian-based VAMED in the health sector. Though officially incorporated as a limited company (a contracting BV) and registered with the Chamber of Commerce in the Netherlands in order to qualify for ORET, these companies had little to no substance in the Netherlands in terms of actual production or employment at the time of their applications.

Figure 20 *All ORET Applicants*



*(#) represents the number of successful transactions; * indicates a Special Financial Vehicle; ** indicates a non-Dutch company; *** The company Shell Solar was Dutch at the time of its application for the Philippines in 1995 and for China in 1999. It became German (Solar World GMBH) in 2004 but the ORET grants were transferred for reason of continuity of the transactions.*

3.5 ORET in Context

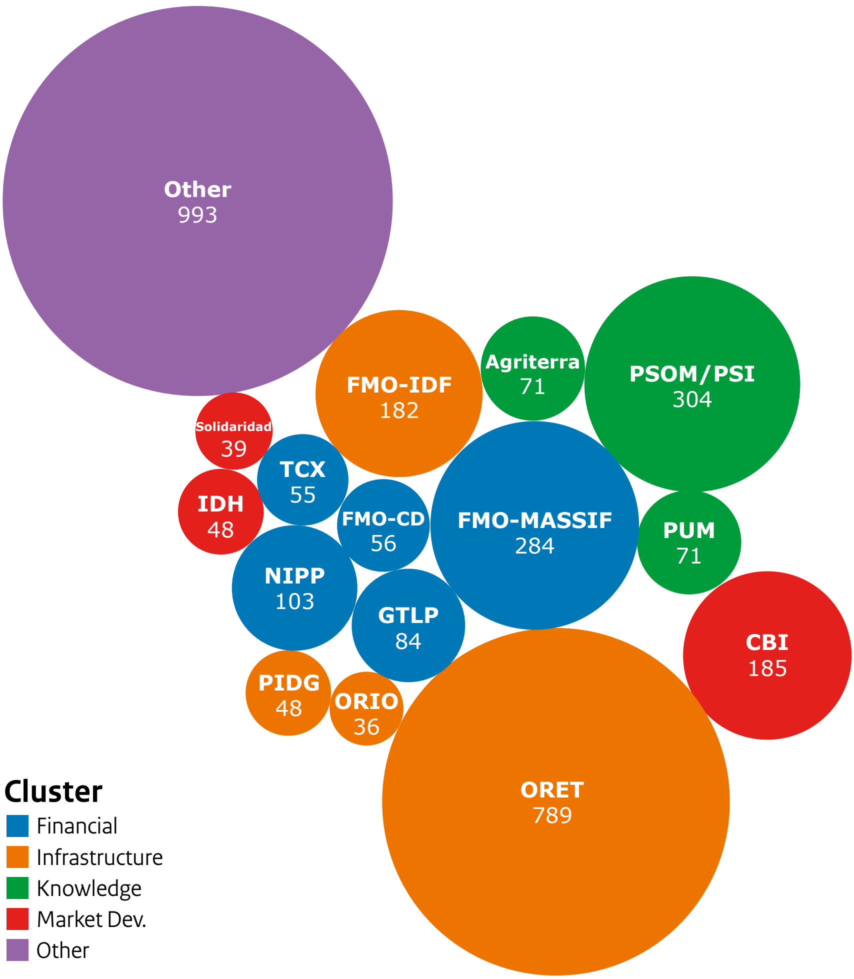
3.5.1 ORET's Place within the PSD Policy of the Netherlands

Policies on promoting private sector development (PSD) in developing countries by the Netherlands are organised around five policy clusters: infrastructure, financial sector development, market access and development, regulation and knowledge transfer (IOB, 2014)[12]. Over the period 2005-2012 the Ministry of Foreign Affairs spent about EUR 3.3 billion or 9% of total ODA on PSD. Within the cluster infrastructure which is the largest in terms of expenditure, a total amount of EUR 1.2 billion was disbursed in that period.

Over the research period ORET disbursed about EUR 790 million and had a two-thirds share in the infrastructure cluster. Figure 21 shows the relative size of the major programmes in the four PSD clusters that have a total grant size larger than EUR 100 million. ORET stands out as a giant among midgets, both within the total PSD expenditures in the four largest clusters and within the cluster infrastructure. Within the infrastructure cluster, the IDF fund of FMO (established for LDCs in 2002 after closure of ORET for this group) is a very distant second, with an amount of EUR 182 million and a share of 15%. When we zoom out from the Dutch PSD policies and look at the place of ORET in relation to the overall financing needs of developing countries for infrastructure and the actual infrastructure investment flows (see paragraph 3.5.2), ORET becomes a tiny dot.

12 IOB recently evaluated the Dutch support to the development of the private sector in developing countries over the period 2005-2012. See in particular Chapter 3: The Dutch policy for private sector development; pp. 56-102.

Figure 21 *ORET's Share in the PSD Policies of the Netherlands (in EUR million)*



3.5.2 Comparison with Similar Donor Programmes

For a long time, exporting countries have been trying to improve the competitive position of their exporters on the world market by the explicit or implicit use of mechanisms and practices. In response, as early as the 1970s a series of high-level OECD meetings was organised on the basis of a common interest: avoiding market distortions and a drain on government budgets as a result of a subsidy race with officially-supported export credits. This resulted in the 'Arrangement on guidelines for officially supported export credits' in 1978, further referred to as the 'Consensus'. The evolving conditions and procedures of the Consensus were consolidated in the so-called Helsinki Package in 1991. Criteria were

formulated to regulate and restrict the use of export credits, including the concessionality level and the notification procedure for creating transparency. An important element was the prohibition of providing aid to commercially viable projects in developing countries for which commercial financing was available. In order to determine the commercial viability of projects benefiting from the aid, an OECD Consultation Group on Tied Aid was formed in 1991. In 2001 DAC members decided to recommend formally untying most categories of aid to LDCs. Threshold levels on the application of the recommendation were initially set at SDR 700,000, but these thresholds were subsequently removed in 2006.

In 2006 bilateral ODA was untied for 73% overall, and 82% of bilateral aid to LDCs was untied (Clay, et al., 2008). The percentage of untied aid differs per type of aid. Historically, loans had been associated more with tying practices and export promotion (ibid.). The proportion of the total ODA loans that were untied in 2006 (48%) was substantially lower than that for grant aid (84%). Unlike separate grants and loans, data on the combination of a grant and a loan, the so-called mixed credits, is very difficult to uncover (Geddes, et al., 2009). However, the generally accepted view in the 1980s and 1990s that bilateral loan funding (especially as part of mixed credits) was usually tied to complementing commercial credit sourcing of goods and services in the donor economy is losing favour (ibid.). These types of arrangements have for the most part disappeared. The DAC mentioned ORET as an example of such a programme that was still surviving but close to completion in 2007 and not to be replicated (ibid.). This prediction was proven wrong, with ORIO succeeding ORET and continuing the practice of mixed credits.

In their study of 22 donor policies and institutions, Miyamoto and Biousse give an overview of the support by bilateral and multilateral donors for private sector participation in developing country infrastructure (Miyamoto & Biousse, 2014). They show that official development finance of donors generally accounts for only 5-8% of all infrastructure financing in developing countries. The majority (55-75%) is paid by the public sector and citizens of developing countries themselves, with 22-30% of those investments financed by the private sector (Estache, 2010). Official development finance for infrastructure is increasing, with a sizable proportion disbursed to support the private sector directly, mostly through loans and equity by bilateral and multilateral development finance institutions. However, Miyamoto and Biousse also show that almost 70% is directed towards infrastructure in upper middle income countries, where the domestic financial sector might be relatively well-developed. This raises the question of additionality of the official donor support. Official export credit agencies also provide significant amounts of financing to developing countries' infrastructure. Donors further provide about 15% of funding to help improve the enabling environment for investment, by building the capacity of partner government ministries, public-private partnership units, regional organisations, or local administrations. The article concludes that better co-ordination is needed between various agencies or units involved in supporting infrastructure development within donor countries or multilateral institutions. This includes the need for the establishment of a transparent monitoring mechanism of development finance institution activities to ensure additionality and development effectiveness.

The 2006 DAC peer review of the Netherlands noted that alongside taking steps towards further untying and supporting new untying initiatives, the Netherlands still maintained the partially tied ORET programme. An additional step, according to the review, would be to follow the example of other DAC member countries which have decided to untie their aid entirely and enhance the coherence between their own domestic development policies and the international pleas for untying.

It is interesting to look at the activities of other DAC donors. The export financing systems of 34 countries are described in an OECD publication from 2008 (OECD, 2008). In annex 7 we give an overview of the most relevant activities of other donors in this regard, in particular Australia, the United Kingdom, Canada, France, Germany, Italy, Japan, the USA, Denmark, Portugal and Belgium.

3.5.3 Infrastructure Needs and Finance Flows

There is broad international consensus that a country's infrastructure is a critical factor for attracting foreign direct investment (FDI), promoting trade and sustaining economic growth. The IOB evaluation of the Netherlands' policies for private sector development gives a brief overview of the international literature on the effects of infrastructure (IOB, 2014). The impact of the existing infrastructure and its quality on growth and development is well documented, as are the complementary roles of the public and private sectors in service provision (Calderón & Servén, 2004; Straub, 2008). Public infrastructure is at the core of the structural transformation of economies (UNCTAD, 2009); (Lin, 2011)). The World Bank estimates the infrastructure gap at US$1 trillion in low- and middle-income countries while the demand for infrastructure continues to grow as countries develop further.

Infrastructure is also critical to support social progress and the achievement of the Millennium Development Goals. Access to basic infrastructure services remains a big obstacle for many poor people in low-income countries and in many middle-income countries as well, and therefore infrastructure can be an important tool to combat poverty. Providing access to infrastructure services for the poor is crucial in order to ensure their connectivity with economic activities and productive opportunities (Estache et al., 2002). If the poor are isolated from economic centres, by a lack of infrastructure, the development of local markets is also hampered (Deichmann et al., 2008; Mu & Van der Walle, 2011). The positive impact of public infrastructure is expected to be even stronger for poor countries (Bennathan & Canning, 2000; Estache, 2010). Hence addressing infrastructure gaps is a high priority for LDCs, in particular in Africa, where 34 of the 48 LDCs are located.

According to the World Bank (2014), developing countries now spend about US$1 trillion a year in total on infrastructure. Maintaining current growth rates and meeting future demands would require investment of at least an additional US$ 1 trillion a year through to 2020. Nowhere is infrastructure as important as in Africa. Africa's infrastructure agenda is inherently regional due to the large number of small economies, 15 landlocked countries and trans-boundary rivers (60 river basins). Energy resources and power load centres are often unevenly distributed. African countries face major access needs in energy, irrigated agricultural land and drinking water. Infrastructure services can easily cost twice as much as

in other developing regions due to the lack of economies of scale and limited competition that result in high power costs of on average US$0.14 per kilowatt hour.

Africa's infrastructure deficit limits its growth potential. There is significant scope to develop a sound infrastructure policy and institute institutional reform to address domestic resource mobilisation, leakages through inefficiency, lack of competition and corruption. Africa's infrastructure funding gap has been estimated at US$ 31 billion per year, with additional systemic inefficiencies draining some US$17 billion a year (Foster & Briceño-Garmendia, 2010). At least one third of that infrastructure spending should go to the operation and maintenance of current infrastructure. Good governance and improved operational and regulatory capacity are critical for the sustainable access of people to and financial viability of these infrastructural services.

Non-transparent budgetary processes and inefficient institutions hamper infrastructural development and their maintenance in Africa. According to a joint study of the OECD Development Centre and the CABRI (Collaborative Africa Budget Reform Initiative), in many countries the process of selection of infrastructure projects and their appraisal needs to be substantially improved. In order to generate more value for money, much more rigorous use should be made of economic, financial, social and environmental appraisal methods. This would enhance the feasibility and sustainability of projects. The main political challenge will be to avoid the 'capital' bias that favours new investments above much needed expenditures for the operation and maintenance of existing infrastructure (Nana Boateng et al., 2014).

A major contribution by Julian Donaubauer, Birgit Meyer, and Peter Nunnenkamp (2014) to overcome data limitations in establishing infrastructure needs has been the construction of a new global index of infrastructure. This index covers various dimensions of infrastructure for a large sample of developed and developing countries. Specifically, the index is based on a broad annual data set of 30 indicators of the quantity and quality of infrastructure for up to 193 countries, covering the period 1990-2010. In addition, the authors have built sub-indices for specific components: transport, information and communications technology (ICT), energy, and finance. Low income and lower-middle income countries dominate the bottom third of the ranking. However, rankings for the sub-indices reveal that few countries receive essentially the same scores for all four categories of infrastructure.

Finance for public infrastructure comes from many sources but the bulk originates from public funds. Historically, some 40% of Africa's infrastructure investment has come from the public sector and a further 40% from the private sector. Donors and non-OECD partners have contributed roughly equally to the remaining 20%. The extent of the infrastructure challenges varies hugely across countries and also demands that donors tailor their financing strategies. Private finance for infrastructure has remained largely confined to the telecommunication sector, although there is some willingness to invest more in power plants and container terminals. Donors play a relevant role in promoting sustainable development and poverty reduction in the poorer developing countries through improving and building infrastructure. Together, all donors (bilateral and multilateral) provided

US$ 324 billion of aid related to infrastructure during the 1990-2010 period, accounting for 3.4% of gross capital formation in all low and lower-middle income countries (OECD, 2014). Of the total ODA by DAC members in 2009, 43% was allocated to 'social and administrative infrastructure' and 14% to economic infrastructure. The 2012 OECD study (Miyamoto & Muzenda, 2012) gives a good overview of ODA flows to Africa's hard and soft infrastructure and the role of official agencies in supporting infrastructure through financial tools such as export credits, blending mechanisms, guarantees and investment funds.

The above picture of the need for better infrastructure to improve the lives of people in poorer developing countries and to strengthen the competitiveness of their economies forms the broader canvas for ORET. ORET has focused on co-funding public infrastructure in developing countries that is commercially non-viable or cannot find commercial funding. ORET's share compared to other infrastructure funders is negligible, except in some countries where ORET had an unintentionally heavy focus in practice but even there it has still had only a very small share in the financing of all infrastructure.



4 Results of the Case Studies

4.1 Approach and Overview

4.1.1 Introduction

The main research questions of this evaluation focus on the efficiency, relevance and effectiveness of the ORET transactions, the additionality of the ORET funds, and the extent to which ORET facilitated Dutch companies' access to access the markets of recipient countries. In addition, the evaluation is intended to highlight success or failure factors and factors that enhanced the sustainability of the supported investments. The selection and coverage of the 24 transactions in the 13 case studies are described in Annex 6. In our view the sample reflects the portfolio of completed ORET transactions reasonably well.

Below we first describe each case study briefly. Annex 8 contains more detailed summaries of the case studies. The full reports of the case studies can be found on the IOB website.

Next we discuss the results of the case studies per evaluation criterion as defined in paragraph 1.2 on the evaluation methodology. The results are based on the findings of the evaluators in each case study and the score card results for the 26 indicators (see paragraph 1.4.3 and Annex 4). Annex 5 provides a completed scorecard of all 13 case studies, however, we would remind readers to exercise caution when comparing the scores.

4.1.2 Overview of the 13 Case Studies

The 13 case studies in seven countries consist of 24 ORET transactions in total. Several case studies consist of more than one (related) transaction. Four of the 13 are in-depth case studies and include surveys of beneficiaries and end users to get a better idea of outcomes and impact. Annex 6 lists the 24 transactions per aggregated sector of ORET and presents key data focusing on financial matters and the use of supportive instruments. In particular this annex reports the use of the co-financing facility for preparatory cost (PESP), the insurance of the credit risk of the non-grant funding, additional technical assistance, the tying status and the definitive Dutch content of the transaction.

The evaluation contains five case studies in the sector *Wet Infrastructure and Sanitation*. Four are on drinking water: three water plants in Ghana (Kwanyaku, Barakese, and Tamale) and one in Sudan. The in-depth evaluation of Kwanyaku, which considers three ORET transactions, includes a survey of standpipe operators and interviews with end users. The in-depth evaluation of the Omdurman project includes a survey of end users in a treatment group and a control group. The Al Manara transaction in Sudan was part of a larger project for EUR 88 million, EUR 24.4 million of which was financed by a grant from ORET. The remainder was financed with development loans from the LDC Infrastructure Fund managed by FMO and two other foreign development banks. None of the drinking water projects were prepared with PESP support. All of them were contracted directly, not applying ICB.
The contractors were the Belgian-Dutch company Denys for the Kwanyaku transactions, the Dutch company Ballast Nedam for Barakese and the British company Biwater for both the Tamale project in Ghana and the Umdurman Water supply project in Sudan. Four of the six transactions included technical assistance.

The other case study in this sector concerns the construction of a fishery port in Champerico, Guatemala. The Dutch companies Van Oord and Royal Haskoning BV were contracted for this project in two separate ORET-transactions. Van Oord was responsible for the works whereas Royal Haskoning was responsible for supervision and technical assistance to the recipient organisation EPNAC and the artisinal local fishermen. The values of their contracts were respectively EUR 23.7 million and EUR 1.3 million and the ORET grants totalled close to EUR 9 million. The technical assistance provided qualified for additional grants from the technical assistance facility within ORET. The non-grant funds came from the general budget of the Government of Guatemala. The feasibility study in the preparation phase was partly financed by PESP.

In the *Health and Education* sector, the first case study concerns the supply of diagnostic equipment and services by Philips Medical Systems to Tanzania. The transaction, which had started back in 1997, involved the supply of diagnostic equipment to 98 hospitals and the training of hospital staff. The in-depth evaluation included a survey of 20 of the 98 hospitals. The total transaction value amounted to EUR 26.8 million and the ORET grant was EUR 16.1 million. The preparation of the transaction was co-financed by PESP. Since the Tanzanian government funded the non-grant part of the transaction from its own budget and Philips Medical Systems delivered the equipment in batches only after receipt of these payments, credit insurance of the non-grant funding was not required.

The second case study in the health and education sector is a transaction in vocational education in Sri Lanka, which was part of a larger project co-funded by Austria. The ORET transaction concerned the rehabilitation of two training institutes, including the renovation of buildings, the provision of equipment, the modernisation of teaching curricula and the training of the teachers and technical staff. The applicant was the Dutch firm Gemco International, which worked on the project together with the Austrian MCE Industrietechnik Linz GmbH. The total value of the ORET-supported transaction amounted to EUR 10.9 million, of which ORET financed EUR 4.2 million.

In the sector *Dry Infrastructure and Agriculture*, five related transactions involving the rehabilitation of the airport in Dar es Salaam make up one case study in Tanzania. The Dutch company Interbeton was the main contractor for the rehabilitation of the Julius Nyerere Airport that was implemented under two related transactions (TZ00039 and TZ00114). Together the two transactions amounted to close to EUR 50 million and the ORET grant was EUR 25.7 million. Another Dutch company, Strukton, rehabilitated the power supply of the airport under a related ORET transaction (TZ00035). This transaction amount was EUR 6.4 million, which was co-funded with an ORET grant of almost EUR 3.3 million. Two foreign consultancy firms, Howard Humphreys Ltd and Sir Frederick Snow Ltd, were contracted: the first to supervise the rehabilitation works and the latter to provide technical assistance on airport management to the client, Tanzania Airport Authority. The total contract sum was EUR 1.4 million, which was co-funded with an ORET grant of EUR 875,000. The non-grant funding for all five transactions came from commercial export credits insured by Atradius DSB.

In the sector *Utilities* we have five case studies. The first involves a transaction of the Dutch company Vialis in Bangladesh, which supplied signalling equipment to seven stations in a particular railway section. The transaction included training the staff in handling and maintaining the equipment. Bangladesh Railways was the client. The value of the transaction amounted to EUR 8.5 million and was co-financed with an ORET grant of EUR 4.25 million. The non-grant part was covered by a Letter of Credit from a local bank.

The second (in-depth) case study in this sector concerns four related transactions in the transport sector in Ghana. These involved the supply and local assembly of 500 buses by the Dutch company VDL to the public transport company Metro Mass Transport (MMT) and included technical assistance and management support to MMT. The evaluation of this case study uses mixed methods and includes a survey of the passengers of six bus lines. The total transaction amount was EUR 73.6 million and ORET subsidised EUR 27.6 million. The non-grant funds were financed with commercial loans from Dutch banks that were insured by Atradius DSB.

The third case study consists of two transactions of Wärtsilä Nederland BV that involved rehabilitating respectively four and eight diesel generator power plants in remote areas of Indonesia. PT PLN, the state-owned electricity company, was the client. The total value of the two transactions amounted to EUR 24.5 million which was subsidised by ORET for EUR 8.4 million. The non-grant financing came from a combination of commercial banks loans and PT PLN's own funds.

The fourth case study involves the transaction of the Dutch company Damen BV, which supplied one Buoy Tender and three Aid Vessels to Indonesia. The Directorate Sea Communication of the Ministry of Communication was the client. The value of the transaction totalled EUR 36 million, to which ORET contributed a grant of EUR 13.5 million. The non-grant funds were financed with an export credit from a commercial bank, which was insured by Atradius. One reason why Damen BV was directly contracted was its willingness to assemble the vessels at the local shipyard PT Dumas in Surabaya. The transaction included technical assistance to the shipyard and training of the crews of the vessels.

The fifth case study concerns a transaction to strengthen the Disaster Response Network in selected areas of Sri Lanka. The Dutch company Search and Rescue Systems (SAR Systems) was the applicant. The main client was the Ministry of Provincial Councils and Local Government. This transaction involved the supply of firefighting vehicles and equipment and training of the fire brigades in 18 firefighting stations. In addition, it supported the Colombo Municipal Council Fire Brigade in setting up a national Special Response Unit to assist local fire and rescue brigades in case of major disasters, and a national Training Centre. The total transaction amounted to EUR 30.8 million, which received an ORET grant of EUR 10.6 million. The remainder was financed by a Dutch commercial bank and required credit insurance from Atradius DSB.

4.2 Efficiency

Under efficiency we assess the efficiency of the administering agencies in the phases of application and appraisal and the efficiency of individual transactions in the phase of implementation (see paragraph 1.2 and the explanation of the score card indicators below for our approach towards efficiency). The scorecard separates efficiency into two dimensions that are addressed in paragraph 4.2.1 and 4.2.2 respectively.

4.2.1 Assessing the Application and Appraisal Phases

The competence of the administrators in the application and appraisal phases was scored by two indicators: (i) the quality of the appraisal documents (indicator 1), and (ii) the quality of the monitoring and evaluation of the transaction (indicator 2). The overall score per indicator for all 13 case studies was calculated as the weighted average of the scores (on a numerical scale of 0-100) for each case study, using the respective transaction amounts as weights. The overall score for the efficiency dimension of the application and appraisal phase was then calculated as the simple average of the weighted averages for the two efficiency indicators. In addition, the evaluation assessed the lead time of all transactions.

These three elements combined give a good impression of the competence with which the administering agencies have managed the ORET programme. We were unable to fully assess the efficiency of the administrators of ORET. We cannot answer the efficiency question of whether the same outputs could have been accomplished at lower cost because a proper benchmark is lacking. We did not engage in a benchmarking exercise to compare FMO and ORET.nl to another agency because of the difficulty of finding a programme fully comparable with ORET, with similar facilities and policy conditions. A bilateral comparison of FMO and ORET.nl in their managing of the ORET programme could have been an option but faced a similar problem because of the different approaches of the two organisations and the changes in the ORET regulations over time. (See our observations in paragraph 2.5.1.)

Although the survey of applicants revealed that the companies considered the application procedures to be somewhat complex and lengthy, overall they expressed satisfaction with the ORET programme. Delays in the appraisal phase were sometimes caused by the recipient government. The clients of the navigation vessels in Indonesia and the railway signalling system in Bangladesh appreciated the flexibility that ORET showed when they had to deal with administrative issues in their respective countries. The average lead time of the application period was considered long, but generally applicants and clients understood that the applications required careful assessment. The application for the supply of diagnostic equipment to Tanzania was re-submitted after the first application had been rejected because the equipment was considered too advanced for the regional and district hospitals at that time. The second application was amended accordingly and approved.
It also included training of hospital staff in the use of the equipment, better organised maintenance and improvements to the locations where the equipment was to be installed.

Assessing the technical, financial and management capacity of the applicant companies was part of the application procedure. This is logical in view of ORET's focus on somewhat complex infrastructural investments in developing countries. In most cases applicants for ORET support were not small and medium sized companies (SMEs) but were large companies which had already acquired experience in doing business with developing countries. The companies in the 13 case studies were no exception. With hindsight the *due diligence* test of applicants turned out correctly for all but one transaction. The only case in which an applicant company was unable to finalise the transaction was in the Barakese drinking water project, where the first applicant company – Taylor Woodrow – went bankrupt within a year after the project started.

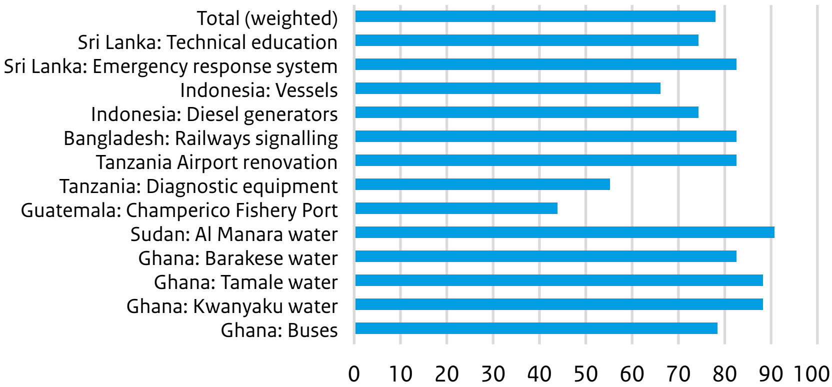
For the transactions in Sri Lanka, the financial format was adapted to the wish of the government to receive a concessional loan instead of the regular combination of a grant and a commercial loan. The ORET grants were partly used to pay for the interest on the commercial loans that now had to cover the full transaction amounts. In Guatemala the application took more time because in order to be able to contract the applicant companies directly, the government had to seek permission from Parliament to deviate from the national procurement law that prescribed ICB. Despite these examples of delays, the case studies did not reveal any particular problems about the application process. What is remarkable is the low number of applications that made use of a PESP subsidy to co-finance the preparation cost of an application, in particular the feasibility study: only three out of 24 transactions.

The general impression is that the applications were processed reasonably efficiently by FMO and ORET.nl. This is confirmed by the average scores of the evaluators involved in the case studies. They generally gave high scores to the quality of the appraisal documents of the case studies (*indicator 1*) scores varying from 44 to 100, resulting in a weighted average of 92.

Indicator 2 – the quality of the monitoring and evaluation – scored lower with scores ranging from 33 to 83 but the weighted average still came out 'sufficient' at 66. Four transactions scored markedly lower than the others: the two transactions with Indonesia, the supply of medical equipment to Tanzania, and, in particular, the fishery port project in Guatemala. The main reason for these low scores was that the monitoring and evaluation of these transactions were particularly focused on the execution of the transaction and paid less attention to outcomes and impact.

Figure 22 combines the scores for indicators 1 and 2 for each case study and shows the overall scores for efficiency in the application and appraisal phase, with Al Manara scoring the highest (92) and Champerico the lowest (44). The overall weighted score for efficiency for all case studies in the applications and appraisal phase was 79(= (92+66)/2).

Figure 22 *Assessment of the Applications and Appraisal Process*



4.2.2 Assessing the Implementation Phase

Because of the data limitations of this evaluation, the assessment of the efficiency dimension in the implementation phase has been based on the scoring of three indicators: (i) the realisation of the planned activities (indicator 3); (ii) the price/quality as perceived by the end-user (indicator 4); and (iii) the efficiency of the financial package, determined on the basis of the level of the one-off finance costs (bank fees and insurance premium) of securing the non-grant funding expressed as a percentage of those non-grant funds (indicator 5).

Indicators 3 and 4 address in particular the competence of the applicant companies in delivering the agreed outputs in an economical and timely way. Indicator 5 gives an impression of the relative cost of the financing arrangements of individual ORET transactions as a proportion of the non-grant funding. We were unable to make a comparison with an external benchmark for the three indicators in all case studies because of the lack of a counterfactual for each transaction. So we have been restricted to the 'internal' benchmarks incorporated in the 3 indicators. The overall score for the efficiency dimension in the implementation phase has been calculated as the simple average of the weighted averages of all 13 case studies for these three indicators.

With these limitations in mind, our general conclusion from the 13 case studies is that transactions were realised efficiently by the implementing companies, i.e. they were mostly implemented within the agreed period and the agreed budget. An exception was the diagnostic equipment project in Tanzania which took longer to implement, the main reason being that the Tanzanian government did not transfer the required non-grant payments in time. Since the timing of the delivery of batches of the equipment was linked to receipts of the instalments of these payments, the completion of the transaction was delayed by at least one year. In other transactions (e.g. in Bangladesh) there was some discussion about the suitability of the design of the equipment, which caused some delay in implementation. The Barakese water supply project in Ghana faced a very serious problem when the original contractor went bankrupt. The project was taken over by Ballast Nedam,

who changed the design, which also required an increase in the original budget. After these changes the project was nevertheless implemented efficiently in time and within the revised budget. In a number of cases, in addition to technical assistance the transactions included management support, e.g. to the bus company MMT in Ghana. This support considerably smoothed the execution of the projects and was highly appreciated by the recipient organisations.

The positive findings on the realisation of the outputs in the implementation phase are reflected in the scores of the evaluators. According to them transactions were generally implemented as planned, with scores for *indicator 3*, ranging between 33 and 100 and a weighted average score of 93 for all transactions. The exception is the Champerico fishery port in Guatemala, with a low score of 33, where although the bill of quantities contract was executed as agreed, the transaction did not result in a properly functioning port. The principal reason for not achieving the agreed outputs is that no detailed port design based on a rigorous sedimentation study was made. The conceptual design presented in the feasibility study was not followed by a detailed design before works started in 2008. The conceptual design was used for that purpose but was based on erroneous assumptions about the maximum volume of sand to be transported. Apparently, the detailed design was seen as the collective responsibility of all stakeholders. Royal Haskoning and Van Oord were not made responsible for that task and they did not perceive they had an individual responsibility. The other stakeholders in the project, first FMO and later ORET.nl as administering agencies and EPNAC as the client, failed by omission because they had not spelled out this step as a milestone in the commercial contracts and grant agreements nor did they object to the work starting in the absence of a detailed design based on a rigorous study of actual sand transportation.

In the majority of the case studies the end users regarded the supplied works, equipment and services as relatively expensive. In their view, however, the quality of the delivered capital goods and works, generally compared favourably to that of alternative suppliers. Clients expressed this view specifically in the case of the signalling equipment for Bangladesh and the two transactions in Sri Lanka. In general, the better quality partly made up for the higher prices and resulted in a relatively positive score for the price/quality ratio as perceived by end users. Scores for *indicator 4* range from 44 to 100 and the weighted average is 70. In several sampled transactions the prices of certain goods or works were adjusted downwards after a price check by the independent price consultant hired by ORET.nl. In some other transactions certain cost items such as the calculated profit or the agent cost were revised downwards after scrutiny by the price consultant or the Advisory Committee of ORET.nl. In most transactions the prices charged were considered to be market compatible by the price consultant.

The transactions were mostly appreciated because of the attractive grant conditions of ORET. This was certainly the case for projects in the drinking water sector in non-LDCs after the introduction of the Water Facility. PT PLN, the electricity supplier in Indonesia, had no choice other than to select the Dutch company Wärtsilä, because the rehabilitated diesel generators were of their particular brand. Nevertheless, PT PLN considered the pricing to be

reasonable. The Damen transaction on navigation vessels to Indonesia was also attractive for the Indonesian government because Damen was willing to outsource the assembly of the vessels to a local shipyard. This created more local employment and resulted in the transfer of know-how, which paid off in more orders and local employment in the long run. A similar thing happened in Ghana, where after the delivery of the first batch of 100 buses that had been fully produced in the Netherlands, 400 buses were assembled locally, including the production of certain inputs.

Paragraph 3.2.7 already mentioned the relatively high level and the variance in the one-off costs of non-grant financing of all ORET-transactions. This picture also emerges in the sample. The scores for *indicator 5* on the one-off finance costs range from 0 (reflecting one-off finance costs being more than 12% of the non-grant funding) to 100 (no one-off finance costs because of funding by the recipient or one-off finance costs below 2% of the non-grant funding). If the non-grant funds were provided from the budget means of the recipient, we assume that the one-off finance costs are zero. We realise that this indicator offers only a partial view of the total funding cost in economic terms because the opportunity cost of financial sources other than commercial loans (taxes and other donor grants), are not taken into account. The reason we adopted this approach is because of the lack of information.

Figure 23 *Indicator 5: One-off Finance Costs*

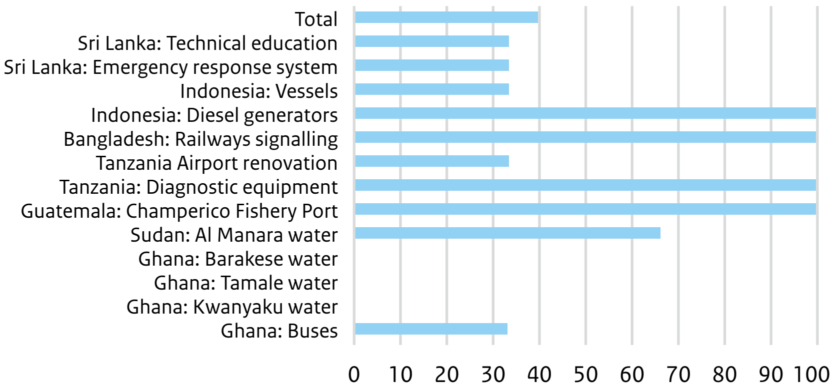
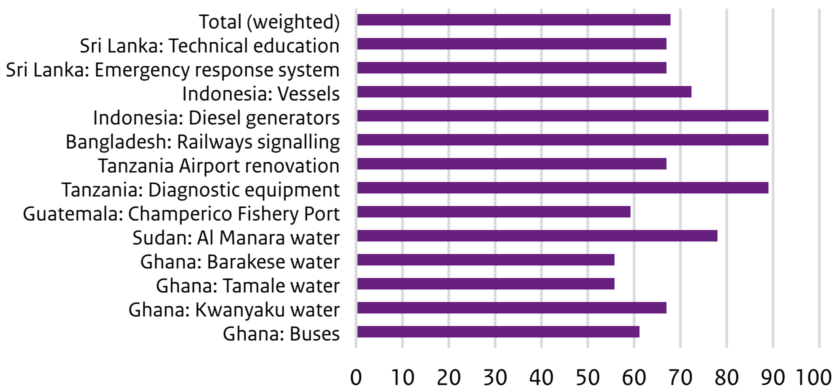


Figure 23 shows that the overall weighted average for this indicator is low (40), which is the lowest of all the indicators. This means that the one-off financial cost to secure the non-grant funding of ORET transactions, which consists of the bank fees and the insurance premium for insured export credits but excludes the interest costs and amortisation, were quite high. This is particularly the case for the water transactions in Ghana that scored zero for this indicator because the one-off finance costs were more than 12% of the non-grant funds. The weighted average finance costs of these five transactions amounts to 18.6% of the non-grant funding, which is high compared to the other transactions in the case studies (see Annex 6 and Annex 8.2). Five other case studies also faced relatively high finance costs and score between 0 and 33

for this indicator. These transactions are the delivery of buses to Ghana, the renovation of the Dar es Salaam airport in Tanzania, the navigation vessels in Indonesia and the two blended loans for the transactions in Sri Lanka for respectively the establishment of an emergency response system and the upgrading of two educational institutes.

Figure 24 combines the three indicators of each case study in the efficiency dimension in implementation by calculating the simple average of the scores, which range between 56 and 89. The overall weighted score for this efficiency dimension is then calculated as the simple average of the weighted average scores for the three indicators and comes out at 68 (= (93+70+40)/3). Whereas the realisation of planned activities scores high across the board (93), the price/quality scores average (70) but the efficiency of the financial package scores low on average (40). This last indicator drags down the performance of the overall implementation score of the transactions in Ghana that do well on the other two indicators. Although the works in Guatemala were implemented according to contract, they did not result in a properly functioning fishery port and therefore the efficiency of implementation scores low.

Figure 24 *Assessment of Implementation*



4.3 Effectiveness

Under effectiveness we relate outputs to outcomes and try to answer to what extent ORET transactions achieved their objectives of stimulating the social and economic infrastructure in the recipient developing country. We do this by investigating the short-term and intermediate effects that the outputs have had on the end users (clients) and intended beneficiaries, e.g. in terms of changes in their behaviour and/or increased use of the public infrastructure and services achieved. We assess effectiveness on the basis of the scores for six indicators differing in nature: (i) improvement of the infrastructure/client's capacity to serve end users as expected (indicator 6); (ii) use of the improved infrastructure/client's capacity in practice (indicator 7); (iii) impact on sustainable economic development (indicator 8);

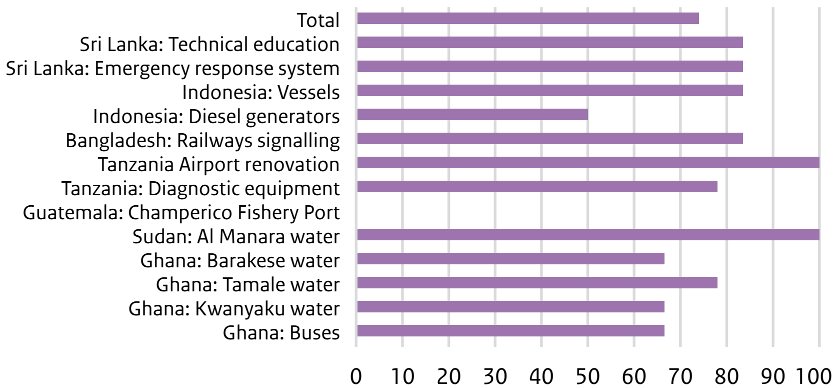
(iv) realisation of expected direct and indirect employment (indicator 9); (v) the extent of positive effects or no harm to the poor as a direct result of the project (indicator 10); and (vi) the extent of positive effects or no harm to the interests of women as a direct result of the project (indicator 11).

Due to a lack of hard data and/or the difficulty of establishing attribution, scores for indicators 8 to 10 are mostly based on estimates by the evaluators. The overall score on effectiveness of all case studies was calculated as the simple average of the weighted average scores for these six indicators, giving equal weight to each of the six indicators.

Despite the difficulty of acquiring concrete data, in general, the case studies show that the transactions have contributed to the expected outcomes. The evaluators of the case studies concluded that all transactions, except one, have contributed to the improvement of the socio-economic infrastructure facilities of the recipient countries. Scores for *indicator 6* range from 22 to 100 and the weighted average comes out at 82.

Even more important for an infrastructure programme is the finding that most built infrastructures are also being adequately used by the intended beneficiaries. Figure 25 shows that scores for *indicator 7* range between 0 and 100, which gives a score of 74 for the weighted average. As a result, most transactions also had a positive impact on sustainable economic development in the recipient countries, with scores for *indicator 8* ranging between 0 and 100 and the weighted average being 60.

Figure 25 *Indicator 7: Use of Infrastructure by Beneficiaries*



The clear exception to the positive scores for indicators 6-8 is the fishery port in Champerico, Guatemala. This project failed to create a properly functioning port because the entrance of the harbour was already silting up during construction. Therefore the port cannot be used by the semi-industrial fishing fleet or to develop high-end fishing tourism. There is an improvement by comparison with the dangerous situation with the decrepit pier that existed before the works started: now the artisanal fishermen can get to sea more

safely, though they and their outboard engines are still at risk when leaving the harbour. The fishermen can stay at sea for longer because of the availability of ice and they can store their vessels safely at night. Nevertheless, the development plans relating to the harbour have not been realised and a considerable number of fishermen have left the profession, sometimes in serious debt. The Government of Guatemala has not seen a return on their considerable infrastructure investment (see further in Annex 8.6).

The supply of diagnostic equipment to hospitals in Tanzania contributed to an improvement of the diagnostic capacity of the 98 recipient hospitals and hence to public health in this country, but the evaluators rated the contribution to sustainable economic development as limited. Thanks to the ORET transaction to rehabilitate the airport in Dar es Salaam, Tanzania has continued to be accessible for international flights and has also been able to improve airport safety and expand its passenger and flight capacity.

The supply of drinking water of good quality has improved considerably in Ghana and in Khartoum, Sudan benefiting local populations. The drinking water projects in Ghana have increased the supply and quality of drinking water in the regions of the country the projects covered. However, certain aspects of the water supply system and related factors in Ghana have, limited the effectiveness of the ORET transactions. Water production is constrained by regular power outages in Ghana, which also form a clear risk for the sustainability of the plants. Substandard pipes do not allow the pumping of the full production capacity of the plants at high pressure, or water simply leaks away without bringing in revenue. Financial and institutional weaknesses of GWCL result in production losses from delays in procurement of necessary *inputs* (chemicals) and poor management of spare parts. The drinking water projects in Ghana have had less effect on the improvement of sustainable economic development in the country, which is not surprising because this was not the focus of the projects.
The Al Manara drinking water plant as part of the Omdurman Water Supply Project has had similar positive effects on the quantity and quality of drinking water in the targeted areas of Khartoum.

The delivery of buses to Ghana improved the intercity and rural transport of passengers by the public bus company MMT. The increased and more affordable connectivity improved the income generating capacity of low-income farmers in rural areas, in particular of women, who were now able to sell their produce at regional markets. Compared to the buses from other manufacturers in its fleet, the VDL buses are considered by MMT to be of higher quality, more fuel-efficient, less polluting, capable of being adapted to carry more luggage and better able to cope with poor road conditions. As a result of the long-term management support and technical assistance, MMT improved its performance as a public bus company, in both financial terms and improved maintenance of the buses. Despite these benefits the project did not achieve one of its objectives, i.e. to improve city transport and reduce congestion in the big cities. The main reason for the failure was that the recipient organisation (MMT) was more or less forced out of city transport by politically better connected minibus operators. However, the shift towards rural and intercity transport turned out to be a blessing in disguise for MMT because it improved its financial bottom line and enhanced its development effectiveness through its more rural focus.

The rehabilitation of the diesel-fuelled power plants in certain remote areas of Indonesia currently contributes to a more stable and reliable supply of electricity. Hence the transactions have improved sustainable economic development in these regions and the living conditions of the population. However, the long-term effects have been less than expected, because several targeted areas have since been connected to the national grid. The plants in these particular regions are now used as standby facilities to meet peak demand rather than functioning as the main power supplier as foreseen. The navigation vessels delivered to Indonesia are considered to be the flag-ships of the Ministry of Communication. They are modern, fuel-efficient and play an important role in the surveillance of the shipping lanes. Although it was impossible to measure the effects of replacing only four navigation vessels in Indonesia, stakeholders claimed that these new vessels have reduced the risk of maritime accidents in the shipping lanes in the Indonesian waters and have increased the traffic capacity of these sea lanes by placing more navigation buoys in an efficient manner.

Most transactions contributed only moderately to direct employment opportunities in the countries, partly because this was not their goal. Scores for *indicator 9* range between 0 and 100 and the weighted average is 56. In virtually all cases it was impossible to quantify the direct effects on employment because of the lack of data. The renovation and upgrading of the two technical education institutes in Sri Lanka stimulated a considerable increase in student enrolment. In the near future this will result in more technicians with the skills required to meet the demands of the local labour market. The first batch of graduates of the new courses were employed instantly or found more lucrative employment abroad, which resulted in more remittances to Sri Lanka.

In general the ORET transactions did not directly harm the poor or women but had a neutral effect on their position. Scores for *indicator 10* (avoidance of harm to the poor) range from 33 to 100, with a weighted average score of 78. Scores for *indicator 11* (avoidance of harm to women) range from 67 to 100, with a weighted average score of 85. Some case studies conclude that both the poor and women benefited more than average from the transactions. Examples of this positive bias towards poor and women are the drinking water and buses transactions in Ghana, the supply of diagnostic equipment in Tanzania, and the power supply in Indonesia.

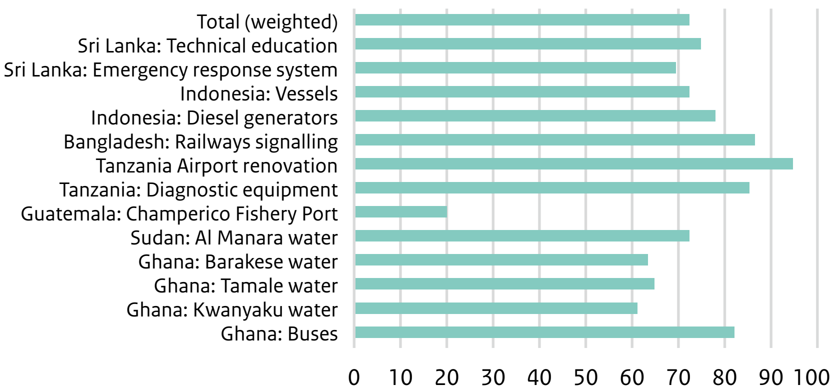
The surveys of water vendors and users in Ghana show that the low-income segments of the population have benefited from the greater availability of safe drinking water from the public, ORET-financed standpipes. Nevertheless, even if they pay slightly less than people who buy their water from privately owned standpipes, in general poor standpipe consumers have to pay as they go per bucket and face a heavier burden than richer households connected to mains water and pay a flat water tariff. This is mainly caused by flaws in the water pricing policy, lack of water meters and poor bill collection from these richer consumers by the Ghana Water Company. The Ghana water report also mentions that the expansion of safe water provision was beneficial for the position of women in the relevant regions. The evaluators of the Al Manara transaction in Sudan also conclude that richer households are relatively more favoured than poor consumers because of the focus of the

project on piped household connections, the anti-poverty bias in the flat water tariff rates and irregular bill collection.

Similarly, the new VDL buses offer better and cheaper intercity and rural transportation in Ghana and hence provided more opportunities for women to go to work and to market and for children to go to school. The medical ORET transaction in Tanzania introduced diagnostic equipment nationwide to regional and district hospitals. A significant part of the diagnostic equipment (ultrasound) was focused on providing diagnostic services to pregnant women. Although limited in size, the improved vocational education facilities in Sri Lanka have attracted more female students, which may enhance their future earning potential. The other transactions investigated in detail had a neutral effect on the position of women or the poor.

Combining the scores for the six indicators in the effectiveness score for each case study in Figure 26 confirms these generally positive findings. Scores for effectiveness for the case studies range from 20 to 94. The weighted average score for all case studies comes out at 72 (= (82+74+60+56+78+85)/6). The airport renovation in Tanzania and the railway signalling equipment transaction in Bangladesh have the highest scores (respectively 94 and 86), because they contributed most to sustainable economic development. The diagnostic equipment transaction in Tanzania might have been less effective in terms of sustainable economic development but its overall score is above average because of its high scores on the other five indicators of effectiveness, such as its contribution to improving the health situation of the poor and women in the regions where these hospitals are located. Once again, the Champerico fishery port is at the bottom of the league because of low scores on all indicators.

Figure 26 *Assessment of Effectiveness*



4.4 Impact

In the case studies it was very difficult to impossible to establish the impact of the transactions, i.e. the long-term effects that can be attributed to the transaction or to which it has contributed, such as increases in employment, economic growth and health, and less poverty in the recipient country. This is due to a lack of hard data (missing baselines) and/or the difficulty of establishing attribution in view of missing counterfactuals. The assessment of impact is therefore based on estimates by the evaluators. With these limitations in mind, impact was determined by scoring two indicators: (i) effects on structural employment in the recipient country (indicator 12); and (ii) effects on the enabling environment for private sector development (indicator 13 which focuses on addressing obstacles to productive investments and is closely linked to indicator 8, sustainable economic development). The score on impact for each case study was calculated as the simple average of the weighted average scores for indicators 12 and 13.

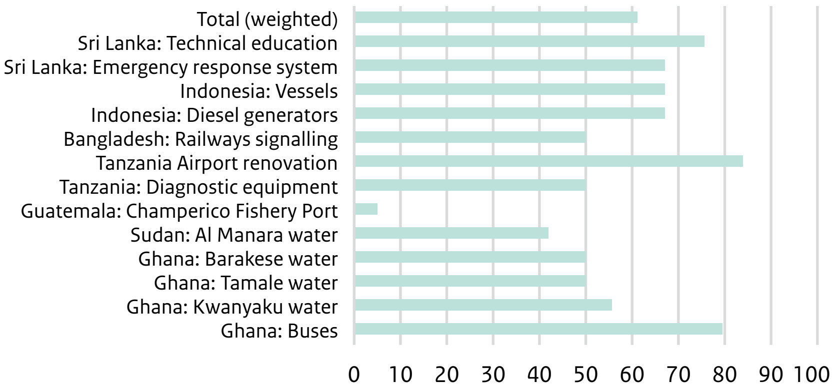
Impacts on structural employment were difficult to establish and quantify due to the relatively small size of the transactions and the lack of hard data. On the basis of mostly qualitative information provided by stakeholders, the evaluators of the case studies nevertheless estimated that the transactions had a modest effect on structural employment in the recipient countries. According to their estimates, the scores for *indicator 12* range from 11 to 83, with a weighted average score of 55.

As expected, effects on structural employment were limited in the case of the water projects in Ghana and Sudan because benefiting employment was not their main objective. These projects scored somewhat better in terms of contributing to the improvement of the business climate. Some drinking water plants in Ghana had a small positive effect on the hotel and tourism industry along the coast and a few agro-food processing companies around Kumasi that needed clean water. On the other hand, the impact of the fishery port in Guatemala on structural employment was extremely low. This transaction was particularly aimed at improving the impact of economic infrastructure in the Champerico region by creating spin-offs in fish processing and high-end tourism activities. It failed to do so because of the silting up of the harbour. The population of Champerico generally perceives a stagnation of development, which is worsening social problems as a result, leading to more out-migration and juvenile delinquency.

The effect on the business climate was equally difficult to trace and estimate, with scores for *indicator 13* ranging between 0 and 83 and a weighted average score of 65. Other transactions that were particularly focused on improving the business climate and structural employment, such as the Bangladesh railways, the buses in Ghana and the upgrading of the technical colleges in Sri Lanka were relatively successful in those areas. One of the most successful transactions in this regard was the renovation of the Dar es Salaam airport. It maintained the international status of the airport and enhanced its transport and passenger capacity. As such, the transaction was essential for maintaining and increasing international connectivity, future business development and tourism in Tanzania and avoiding loss of employment.

Combining the two indicators, scores for impact for the case studies range between 6 and 83 (see Figure 27) while the overall weighted score of all case studies amounts to 60 (= (55+65)/2).

Figure 27 *Assessment of Impact*



4.5 Sustainability

In this evaluation, the sustainability criterion has two dimensions: (i) the extent to which the transaction activities can be continued independently after completion of the transaction, and (ii) the environmental sustainability of the transaction in terms of not doing harm to the environment.

The assessment of the first dimension of sustainability is based on scoring three indicators: (i) technical sustainability or the extent to which the client is able to continue the project independently on technical grounds (indicator 14); (ii) financial sustainability or the extent to which the project is able to generate its own income in the form of adequate user fees or has other safeguards in the form of secure government budget allocations to finance recurrent costs for operation and maintenance (indicator 15); and (iii) institutional sustainability or the client's capacity to manage and continue the project and retain trained staff (indicator 16). The second dimension of sustainability is the extent to which the environment has not been damaged as a direct result of the transaction (indicator 17).

Technical sustainability is a challenge for most transactions, with scores for *indicator 14* ranging from 0 for Champerico to 100 for Al Manara in Sudan and the airport in Dar es Salaam. Nevertheless the evaluators considered the overall technical sustainability of all case studies to be "sufficient", resulting in a weighted average score of 67. The evaluation of the drinking water projects in Ghana concluded that technical sustainability is questionable because a "culture of maintenance" has not been instilled. At the moment this is not a major problem for the Kwanyaku projects because the contractor is still on hand to ensure proper maintenance of the plants. Although the projects included technical assistance and

training and the staff of the plants have the motivation to run an efficient operation, the lack of funds at the Ghana Water Company and flaws in their centrally organised spare part management are serious constraints to keeping up regular maintenance and to procuring spare parts if needed.

Much to the credit of the applicant company, the Ghana bus project included management and technical support for an exceptionally long period – even beyond the financing period of ORET. This enabled the Ghanaian bus company to set up a management structure and allowed business practices that have improved the cost-effectiveness of their transport services and the maintenance of the buses in its fleet to take root. Yet here too, buying the necessary spare parts and new buses to replace worn-out buses remains a challenge due to a lack of financial resources and continued financial dependency on the government. Similar problems are found in the organisation of the maintenance of the diagnostic equipment in Tanzania. Although the equipment in general boosted the quality of the hospital services provided, maintenance lagged behind what was needed, resulting in capital loss of defective or unused machines, again largely due to a lack of financial means. An appreciable number of respondents from the surveyed hospitals also mentioned that after being used intensively for a decade, some equipment is now outdated or no longer in use but no funds are available for replacements.

The financial sustainability of quite a number of transactions is doubtful. The scores for *indicator 15* range from 0 to 100 and the weighted average is 65. Financial sustainability depends on the political setting, the ability of the client to charge and collect user fees from users that allow operation to be profitable (or at least not loss accumulating). Can the client finance at least the costs of operation and maintenance from its own revenues, or is it given priority in future budget allocations of line ministries for recurrent cost financing and replacement of worn-out equipment? Public utility companies in particular face these problems if universal access, the level of user tariffs and the rigour of revenue collection are politically sensitive matters and politics influence operational and hiring practices. The water projects in Ghana are a case in point. Even a complete take-over of the management of the Ghana Water Company for six years by a foreign company (Aqua Vitens Rand), which was a condition for a World Bank sector loan, failed to reduce the non-revenue water significantly. The financial predicament of public utility companies worsens when the commercial loans for the investments are denominated in a foreign currency, as is the case for ORET transactions, while their revenues are in local currency. Depreciation of the local currency vis-à-vis the euro has created a serious debt service problem for some transactions. This is especially the case for the Al Manara plant that sells its water to the Khartoum State Water Company (KSWC) in euros whereas KSWC sells the water to end users in local currency.

Other examples of questionable financial sustainability are the diagnostic equipment project in Tanzania and the emergency response project in Sri Lanka. In Tanzania the hospitals are continuously confronted with financial problems in their provision of much needed medical services. The intensively used equipment has to be regularly maintained, to avoid the dire consequence of much higher cost of replacement at a later moment when the

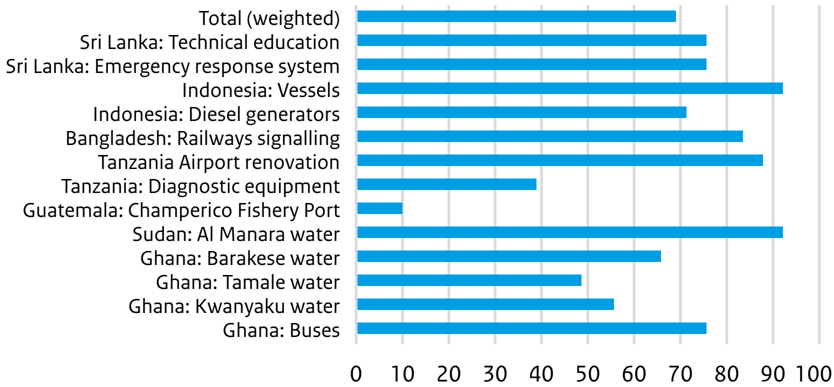
equipment finally breaks down. The main reason for the financial problems is the budgetary shortage at the Ministry of Health for these public goods, it has been compounded by the withdrawal of the Netherlands as a bilateral donor to the health sector. This is resulting in the hospitals increasingly depending on external funding and the risk of perpetuating the cycle of external funding of new (advanced) equipment that cannot be properly maintained. In Sri Lanka, municipalities do not or are not able to allocate adequate budget to pay for keeping up the response readiness of the local fire brigades or even misuse some emergency vehicles, using them for other purposes.

Financial difficulties are often accompanied or even caused by problems with institutional sustainability. For the ORET transactions, scores for indicator 16 range from 17 to 100, with an average weighted score of 60. The case study reports mention that sustainable operations are hampered in particular by the lack of adequate maintenance and difficulty of retaining trained staff (both often the result of an institutional problem). At the moment of writing this report it was too early to judge whether the operations in the case of the water project in Sudan will be sustainable in the long run, since the Al Manara water company and the plant are still being operated by a consortium of external parties.

Other institutional factors that play a role are the politicisation of the management and human resource policy of public utilities as is the case in the water projects in Ghana and Sudan. In these countries, general wage policies for the public sector often make it difficult to retain trained staff. Not keeping promises to expand the number of required staff for a project can hinder smooth operation. The reports on Sri Lanka mention the difficulty the training institutes have in retaining technical staff and teachers because the salaries they can offer are low. Promises to expand the number of staff at the fire stations in Sri Lanka were not kept by local municipalities because they lacked budget resources or did not give a high priority to maintaining the response readiness of their emergency services.

Finally, all projects, except Champerico, scored positive or neutral on *indicator 17* of "no harm to environment", with scores ranging between 22 and 100 and a weighted average of 82. A number of case study reports explicitly mention the positive effects of the transactions on the environment. These transactions are the supply of buses to Ghana (because of the more fuel-efficient and less polluting engines), and in Indonesia the navigation vessels and the rehabilitation of diesel engines at power plants, as both transactions have led to reductions in pollution and CO_2 emissions. The other projects were considered more or less neutral regarding their environmental impact. The Champerico case study report mentions environmental damage as a result of the intervention around the harbour area due to the removal of mangroves, the silting up of a nearby estuary and a drainage problem for the area behind the harbour. In addition, the planned compensation for the environmental damage by replanting mangroves elsewhere was not very successful in terms of surviving seedlings.

Figure 28 *Assessment of Sustainability*



Combining the scores for the four indicators for sustainability and giving them equal weight, we see the overall scores for each case study range between 10 for the Champerico fisheries port and 92 for the navigation vessels in Indonesia (see Figure 28). In some cases the various aspects of sustainability reinforce each other, either negatively as in the case of Champerico or positively as in the case of navigation vessels in Indonesia. The weighted average score for all case studies is the simple average of the weighted scores for the four indicators, which is 69 (= (67+65+60+82)/4).

4.6 Relevance

The assessment of relevance is based on the relative importance of the transaction for the recipient country's national and/or sub-national economic and social policies. In the scoring of *indicator 18*, engaging the involvement of the Ministry of Finance gives the highest result, as this is seen as an indication that the transaction was related to a government priority rather than a line ministry's priority. ORET procedures required that the transaction be given a high priority by the recipient country's government, as evidenced by a statement in writing that the works to be completed by the project were on the government's priority list. Without exception, the case studies show that the transactions were considered a priority and fitted in with the recipient countries' policies.

In all ORET transactions in Ghana, the Ministry of Finance was directly involved in the negotiations of the package and as grantee and guarantor of the commercial loans. This implies that the transactions were high on the country's priorities list. All drinking water plants in Ghana figured on the strategic investment plan of the Ghana Water Company. Tanzania considered the rehabilitation of the airport to be an urgent priority because the airport was about to lose its International Civil Aviation Organization (ICAO) certification. This would have cost the country many international flight connections. Tanzania also considered the lack of proper diagnostic equipment to be detrimental to the health

situation of its population. The ORET project fitted within the goals of the health policy and the health sector reform programme of work 1998/99 - 2000/2001. One of the goals of that policy was to ensure that health services were available and accessible to all people in urban and rural areas.

With increasing maritime transport in Indonesian waters, the fleet of surveillance and navigation buoy vessels was outdated and far from adequate to ensure safe and efficient use of the sea lanes around this archipelago. The transactions for the rehabilitation of the power plants and the navigation vessels in Indonesia figured on the List of Medium-Term Planned External Loans and Grants, the so-called Blue Book. As such the transactions had gone through the national vetting procedure for priorities and were in line with Indonesia's medium- and long-term development plans.

Similarly, railway transport in Bangladesh suffered from outdated signalling systems that were still manually operated, putting the safety of the railway sections at risk and lowering their capacity to transport freight and passengers. The ORET transaction fitted well in the overall strategy to improve the railway system in Bangladesh. The railway strategy ranked high on the development agenda of the Government of Bangladesh and figured in the Five-Year Plan of the Planning Commission of the Government of Bangladesh.

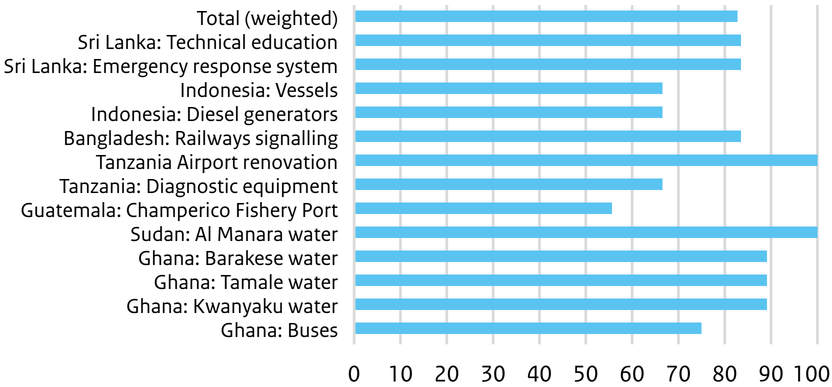
The aftermath of the 2004 tsunami in Sri Lanka exposed serious failures in the national emergency response system and the lack of firefighting equipment and trained firefighters to be able to respond adequately to emergency situations. The transaction that focused on improving technical education in Sri Lanka responded to the growing demand for skilled workers with higher technical qualifications.

The fishery port in Champerico was considered a political priority and played an important role in presidential elections in Guatemala. The existing decrepit pier from where fishing vessels were launched beyond the hazardous surf was very dangerous for the local fishermen. In addition, the absence of a harbour was seen as constraining further economic development of the region.

Almost all projects were considered relevant from a national point of view, as the scores for *indicator 18* range between 56 and 100, with a weighted average of 82 (Figure 29). The Al Manara transaction in Sudan and the rehabilitation of the international airport in Dar es Salaam were considered extremely relevant by the recipient governments, achieving perfect scores. In contrast the transaction with Guatemala scores the lowest with 56.

Hence in general we conclude that the ORET applications in the case studies responded to situations that required attention, were regarded a priority by the recipients and were to our knowledge not supply driven by applicants in terms of their relevance. We were unable to establish whether the transactions responded to the highest development priority of a recipient.

Figure 29 *Assessment of Relevance*



4.7 Additionality and Catalytic Effect

The evaluation attemted to assess the additionality of the ORET transactions and funding from a financial/economic perspective. Additionality was determined by the answers to the following counterfactual questions: What would have happened in the absence of the ORET grant? Would the transaction have taken place anyway because other financial sources were available? Additionality was assessed by scoring how crucial the ORET grant was for the project (indicator 19), mostly by triangulating qualitative information from the interviews with stakeholders (local and otherwise).

Some tension between the criteria of additionality and relevance may arise. The higher the priority for the transaction in the recipient country, the higher that transaction scores on the criterion of relevance. At the same time this raises the probability that the transaction could also have been financed from other sources, thus making the ORET grant less additional. This is less of a problem if the funded infrastructure focuses more on poverty and does not generate enough user fees.

On the basis of the findings it can be concluded that ORET funding in the case studies was by and large additional but not in all cases. The scores for *indicator 19* range from 33 to 100, with a weighted average of 68. In other words, without an ORET grant, transactions or projects would not have been implemented at all, or not in a similar way in terms of both size and quality. Although ORET funding did not generally catalyse other funding from elsewhere except for the mandatory non-grant funding, in only a few cases did it displaced such funding somewhat.

A clear positive exception is the Al Manara project in Sudan. Here the ORET grant triggered the loans from other development banks, including the subordinated loan from the IDF fund that was also managed by FMO and made the whole transaction feasible. Some

transactions would probably have gone through with finance from other sources, either other donors, the government's own funds or commercial loans. It is unlikely that alternative funding would have been provided under similarly attractive conditions for the recipient.

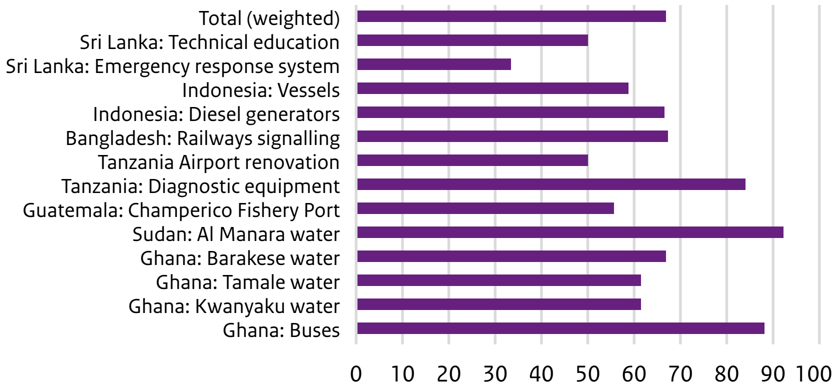
This conclusion is certainly true for all water sector transactions initiated after 2005, when the Water Facility was introduced into ORET, thereby offering a grant of 50% of the transaction amount for drinking water projects in all target countries (including non-LDCs). In Ghana in particular, the favourable conditions of ORET in this sector could not be matched by other donors.

In many other transactions the ORET financing was at least equally if not more attractive for the recipient than the available alternative sources. Given the international attention for Sri Lanka after the tsunami in 2004, it would have been relatively easy to also raise funding for a national emergency response system from other donors. This is reflected in its low score in comparison with the other case studies. The same is applicable to the airport rehabilitation in Tanzania, where in view of the high priority and the ability to levy landing fees on airlines and an airport tax on passengers, other funding – even commercial – could have been found.

The evaluation also attemted to assess the *catalytic* effect of the transactions in the case studies from a financial/economic perspective (*indicator 20*). Such an effect was considered present and positive if other investors in the larger ORET project were enabled and/or follow-up investments in other sectors and the region were stimulated. The catalytic effect could also be negative if the transaction displaced competitors or caused (unforeseen) distortions of the local market. The scores range from 33 to 83, with a weighted average of 65. Due to the lack of suitable data, most scores are based on estimates of the evaluators. In the buses project the case study reports both positive effects in the sense of allowing small farmers in rural areas to grow and sell their produce in the markets of regional cities and creating assembly-related jobs in the Neoplan factory and metal workshops in Kumasi. But there were also negative effects in the form of some mini-bus drivers being displaced by MMT buses. Minibus drivers and owners regarded the government support for MMT as unfair competition but they found other ways to level the playing field. Actually, the reduction of minibuses in the cities by promoting public mass transport was and still is the deliberate and appropriate government transport policy in Ghana to reduce traffic congestion.

Figure 30 shows the combination of the two indicators for additionality and catalytic effect in one indicator obtained by calculating the simple average for each case study, ranging between the lowest score of 33 for the emergency response transaction in Sri Lanka and the highest score of 92 for the Al Manara water plant transaction in Sudan. The weighted average for all case studies is 66 (= (68+65)/2).

Figure 30 *Assessment of Additionality and Catalytic Effect*



4.8 Policy Coherence

Finally, the evaluation wished to assess the policy coherence between ORET and various other aid and economic instruments of the Netherlands or the extent of complementarity or synergy between instruments. The assessment of policy coherence was based on the scoring of six indicators: (i) the realisation of the Dutch component in the ORET transaction (indicator 21); (ii) the contribution to market access or spin-off for the applicant in the recipient country in follow-up orders (indicator 22); (iii) the effect on broader bilateral trade and economic relations with the recipient country (indicator 23); (iv) the complementarity with other instruments promoting Dutch trade (indicator 24); (v) the synergy with bilateral aid for the recipient (indicator 25); and (vi) the conformity with Dutch policy on the framework for international debt sustainability (indicator 26). The first four indicators are related to Dutch economic interests while the last two indicators are associated with overall Dutch development cooperation policy. The overall score on policy coherence for all case studies was calculated as the simple average of the weighted average scores for these six indicators, giving equal weight to each of the six indicators.

The realisation of the Dutch content (*indicator 21*) is derived from the accountant's declaration upon completion of the transaction and lists the actual percentage, which ranges between 50% and 80% (see last column of Annex 6) with a weighted average of 64%. The weighted average for indicator 21 using the scorecard method is 58.

The scores for *indicator 22* – the contribution of the transaction to market access for the applicant – range between 0 and 100, with a weighted average of 60. This implies that on average the ORET transactions in the case studies have generated repeat orders for the applicants worth around half the original transaction value. Some applicants may have managed to secure new orders in the recipient country thanks to ORET providing them with an entrance to that market, but most companies were already familiar with the market.

In other cases repeat orders were fully dependent on aid or ORET funding or were not forthcoming. In a few cases applicants managed to do successful business in the markets of the recipient or neighbouring countries without financial support.

The effect on broader bilateral trade and economic relations with recipient country is reflected in the scores for *indicator 23*. They range between 11 and 67, with a weighted average of 40, which indicates ORET had limited to no real value in improving the bilateral economic relations between the Netherlands and recipient countries. The best scores for this indicator seem to be in recipient countries where the total of ORET transaction amounts was considerable such as Ghana, or in countries where the bilateral economic ties were already strong, such as Indonesia.

Complementarity with other Dutch trade instruments was assessed by the extent to which other supportive instruments were necessary to make the ORET transaction possible, such as a PESP subsidy for the feasibility study, insurance coverage from Atradius DSB to secure the export credit against the risk of non-payment and the ORET grant compensating for finance costs. Scores for *indicator 24* range between 33 and 100 with a weighted average of 64. This indicates that the combination of supportive instruments was helpful but not a prerequisite for either the exporter or the recipient. With only three of 24 transactions supported by a PESP subsidy, this facility did not seem to be necessary for an application to succeed. Insurance coverage from Atradius was more important, with 17 of 24 transactions receiving ECI, but in view of the number of transactions where the non-grant funding came from either uninsured short-term bank loans or budget funds from the recipient country itself, it was not indispensable.

The case studies revealed that in practice there was limited synergy with the Dutch aid programme for a recipient, regardless of whther this was the bilateral aid programme in partner countries or other private sector development instruments that were available to a broader category of recipients. Often there was also no direct relation to other PSD instruments in recipient countries, although the Dutch embassy, if present, was usually involved in identifying and monitoring a transaction. Some embassies, such as the one in Ghana, were also heavily involved in the acquisaition and identification of applications. Scores for *indicator 25* range between 33 and 100, with a weighted average of 58.

The final *indicator 26* on debt sustainability assessed whether a check had been done on the effect of the financing of the transaction on the debt sustainability of the recipient and whether the transaction improved or worsened the debt situation of the recipient country. The outcome can be reflected in the non-payment of the debt service of the loan or the capacity to generate or save foreign currency. Scores for indicator 26 range between 33 and 100 with a weighted average of 70.

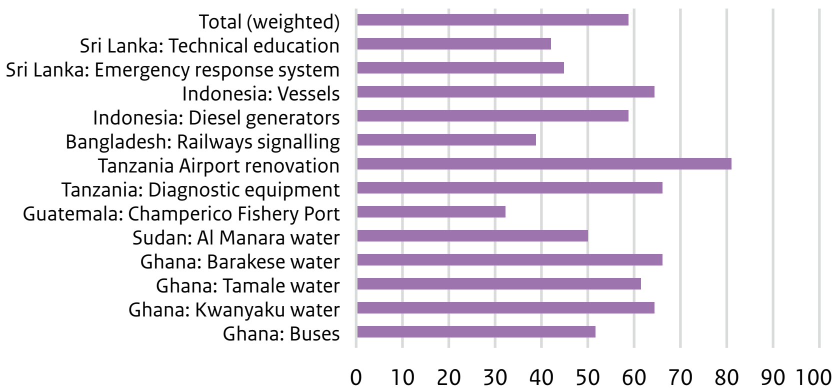
ORET transactions and their financing conditions were generally neutral in terms of their capacity to generate or save foreign currency. Some transactions such as the airport rehabilitation in Tanzania, the buses in Ghana, the rehabilitation of diesel engines of power plants in Indonesia and the technical education institutes in Sri Lanka, did quite well in

either generating foreign currency through more exports or remittances or by saving expenditure on import (e.g. of diesel fuel).

We were unable to establish whether the transactions in the case studies were in line with the IMF / World Bank Debt Sustainability Framework because in the transaction dossiers we seldom found proof that such a check had been done. As mentioned earlier, the financing format of the two transactions in Sri Lanka seems to have been partly motivated to circumvent the IMF debt sustainability framework conditions at the time but ultimately does not seem to have negatively affected the debt position. None of the recipient countries in the case studies defaulted on their debt servicing obligations.

Combining the six indicators into one overall indicator for policy coherence for each case study in Figure 31, results in scores ranging between 32 and 81. The overall weighted score for all transactions in the case studies is 58 (= (58+60+40+64+58+70)/6). This indicator scores the lowest of all evaluation criteria, which is not surprising for a centrally managed and applicant-driven programme like ORET that was never intended to be otherwise.

Figure 31 *Assessment of Policy Coherence*



4.9 Summing Up the Case Studies

The general impression of the 13 case studies consisting of 24 transactions is that the ORET programme has performed successfully though there is certainly scope for some improvement. Bearing in mind the caveats mentioned earlier in relation to the score-card, Figure 32 captures the overall weighted scores for all evaluation criteria, ranging from the lowest and obvious score of 58 for policy coherence to the highest score of 82 for relevance. In addition, Table 6 gives an overview of the of the scores per indicator and per evaluation criterion for the 13 case studies and lists the performance in terms of numbers according to the classification good, satisfactory, unsatisfactory and poor. It shows for example that on indicator 7 (the extent to which the realised infrastructure is used or serves the intended beneficiaries) two projects performed above expectation (A), nine were satisfactory (B), one was below expectation (C) and one was considered a failure (D).

Table 6	Total Scores per Indicator for the Case Studies			
	A – Good; above expectation	B – Satisfactory; according expectation	C – Unsatisfactory; below expectation	D – Poor; far below expectation
1. Quality of *ex ante* appraisal	6	6	1	
2. Quality of monitoring & evaluation		8	5	
Quality of Application and Appraisal	**3**	**7**	**3**	
3. Realisation of planned activities	10	2	1	
4. Price/quality perceived by end-user	1	11	1	
5. One-off finance costs	4	1	5	3
Quality of Implementation	**5**	**5**	**2**	**1**
6. Infrastructure or client's capacity improved	4	8		1
7. Infrastructure is used / serves beneficiaries	2	9	1	1
8. Impact on development/business climate	1	6	5	1
9. Extent direct and indirect employment realised as expected	3	3	6	1
10. Extent of no harm to poor	3	9	1	
11. Extent of no harm to women	4	9		
Effectiveness	**3**	**7**	**2**	**1**
12. Structural effects on employment		6	6	1
13. Effects on business climate		10	2	1
Impact		**8**	**4**	**1**
14. Technical sustainability	2	5	5	1
15. Financial sustainability	2	6	4	1
16. Institutional sustainability	2	6	3	2
17. No harm to environment	4	8		1
Sustainability	**3**	**6**	**3**	**1**
18. Relevance for recipient policy	2	10	1	
Relevance	**2**	**10**	**1**	
19. Additionality of ORET grant	2	7	4	
20. Catalytic role or displacement		9	4	
Additionality and catalytic role	**1**	**8**	**4**	
21. Realisation minimum NL content	1	8	3	1
22. Market access/spin-off for applicant	1	6	3	3
23. Effect bilateral economic and trade relations		3	8	2
24. Complementarity with other Dutch trade instruments	1	6	6	
25. Complementarity with Dutch aid policy for recipient	2	4	7	
26. Conformity with debt sustainability framework	1	10	2	
Policy Coherence	**1**	**6**	**5**	**1**

In general the evaluated transactions were well prepared and competently implemented. More attention should have been given to monitoring and evaluating the outcomes at the level of intended end users and beneficiaries. With a few exceptions, the ORET transactions contributed to the improvement of socio-economic infrastructure of the recipient countries, yielded long-term benefits to sustainable economic development, and on average made a substantial impact, as projected. As expected, transactions were considered relevant by recipient countries given the ORET requirement of a statement of priority from their governments before processing of an application could even begin.

Although alternative funding was available for most transactions, it is doubtful that these funds would have been provided at concessional terms and volumes similar to those provided by ORET. A number of projects would probably have been implemented without ORET support, though most likely at less favourable grant conditions for the recipients. The grant conditions of 50% for water projects in non-LDCs were, however, unnecessarily generous and may have introduced a sector preference towards drinking water projects. In Ghana this was certainly the case.

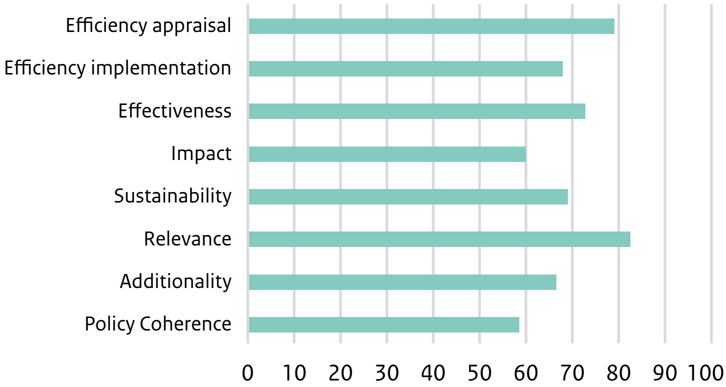
The ORET grants were leveraged with a factor 1:2 or 1:3 by combining them with commercial export credits or the budget funds of the country's government, thereby extending the programme's reach. In the case of long-term export credits, insurance against the credit risk of non-payment may have been necessary to secure access for recipients to these loans but it came at the price of considerable one-off finance costs (bank fees and insurance premiums). We also found a large variation in one-off finance costs, which cannot be easily explained by the difference in risk factors related to these ORET-related loans. The costs seem especially high when one considers that over a period of over 20 years the recipients of insured ORET loans had no defaults on their debt servicing obligations that required compensation payments by Atradius DSB. In certain sampled transactions, the relatively high one-off finance costs diverted funds of the ORET grants from development goals such as maintenance or purchase of spare parts for long periods.

The added value of ORET transactions for recipients lay in the typical ORET approach that provided extra financing from the grant for necessary technical assistance, institutional support and spare parts for a longer period. In some transactions the willingness of contractors to use local assembly and to transfer technology was also a decisive factor. In combination, these benefits and the quality of the capital goods and works were usually enough to convince recipients of the advantages of ORET, even if the prices of some capital goods were sometimes slightly higher. In directly awarded transactions it remains unknown what more competition through international tendering could have produced.

The contribution of the transactions in the case studies to the further expansion of Dutch exports to the recipient countries other than the realised Dutch content or to the bilateral economic relations with the target countries of ORET was limited. Most companies were already active in those markets but their local expertise may have actually been an advantage in implementing the more complex infrastructural works. Some companies, such as VDL and Philips, seem to have gained valuable experience through early ORET transactions in

entering difficult markets and tailoring their products to local circumstances and the limited budgets of recipients. Only in a limited number of cases did the ORET transactions result in follow-up activities of the Dutch companies involved that did not need new ORET funding. The lack of synergy is consistent with the finding that ORET transactions were not always complementary with other Dutch trade promotion instruments or even needed support such as the co-funding of the preparatory cost of an application by PESP.

Figure 32 *Weighted Scores for the Evaluation Criteria for All 13 Case Studies*



In conclusion, the vast large majority of transactions were prepared and implemented competently and achieved the anticipated results. The driving force of applicants has often proved to be crucial in the ultimate success of transactions. On the basis of certain completed projects, it is expected that most activities initiated by the ORET transactions will continue as planned, without the need for new Dutch inputs. The financing of the recurrent cost of operation and maintenance continues to be a huge challenge for recipient governments. ORET remains a somewhat isolated programme that can hardly be considered complementary to other Dutch aid and private sector development activities. This should not come as a surprise in view of the combination of its applicant-driven nature and centralised management of this subsidy programme in The Hague. If these key characteristics of ORET are maintained in a successor programme, this lack of coherence should in our view be taken for granted and attempts should not be made to reduce it by creating artificial synergies through cumbersome procedures that will not add much value either to recipients or to applicants.



5 Conclusions

5.1 Introduction

In this final chapter we return to the general research questions formulated in the Terms of Reference of this evaluation. We provide answers to the research questions at programme level, based on the combination of findings from the policy reconstruction, the portfolio research, the company survey, the interviews with stakeholders and the 24 ORET transactions of the 13 case studies.

The performance of the ORET-programme as a whole has been assessed primarily on the basis of the findings from the 13 case studies which are considered illustrative for the whole sample.

Since many research questions have already been dealt with in the previous chapters, we will refer to the description and conclusions reached in those paragraphs. We will limit ourselves here to those questions that have not yet been adequately answered. The research questions are dealt with below in the order they appear in the Terms of Reference.

5.2 Policy Reconstruction

The Terms of Reference formulated the following questions on policy reconstruction:

1.a. What were the main components of the administration arrangement between the Ministry of Foreign Affairs and ORET.nl? What were the administration costs of the programme over time, in absolute terms and as a proportion of the total grant payments and of the managed portfolio?

1.b. How has the management of the ORET-programme been monitored and guided by the Department of Sustainable Development of the Ministry of Foreign Affairs?

1.c. To what extent have accepted recommendations of earlier ORET evaluations been translated into the 2006 ORET Regulation and followed up in practice?

1.d. Does the M&E framework produce useful and reliable monitoring and evaluation information on the ORET transactions and projects?

1.e. How does ORET operate and what is its position in the recipient countries? What role in the implementation of the programme has been played by the various stakeholders, such as the government officials of recipient governments, Dutch embassies, the implementing companies, the end users, and beneficiaries?

1.f. What was the effect of the OECD/DAC *ex ante* notification rules on contracting procedures (international competitive bidding in LDCs and notification in non-LDCs) on applications? Has there been more subcontracting of local suppliers in LDCs in ORET transactions since 2007?

1.g. In general, where were the goods, services and works of ORET transactions sourced in practice? Did the ORET sourcing conditions for the foreign component and the mandatory purchasing in the Netherlands in the case of non-LDCs have an effect on prices in the transactions? To what extent did the routine price/quality check during the appraisal stage have an effect on contract prices? How was the actual price/quality ratio of supplied goods, services and works valued by the end user in practice?

Question 1a on the administration of ORET and question 1b on the supervision by the Ministry have been extensively addressed in paragraphs 2.5.1 and 3.2.4 (question 1a) and paragraph 2.5.2 (question 1b).

In response to question 1c on the follow-up of the 2006 ORET evaluation, most recommendations, with the exception of limiting the list of eligible recipients, were followed, at least initially, in the ORIO programme that succeeded ORET in 2009. This concerned in particular the strengthening of development relevance by the introduction of a competitive selection model, the focus on socio-economic public infrastructure investments, international competitive bidding, sustainability of transactions, support in the preparation of applications by introducing two distinct phases in the project cycle, more focus on LDCs and fewer sectors. For a full comparison between ORET and ORIO, we refer to annex 3. ORET.nl, which took over the management of ORET from FMO on 1 January 2007, continued to apply the existing May 2006 ORET Regulation, which was not changed after the 2006 evaluation. ORET.nl did give more attention to strengthening the sustainability of transactions, which is reflected in the enhanced use of the facility for additional technical assistance, though primarily in non-LDCs (see paragraph 3.2.8).

Referring to question 1d on the information provided by the M&E framework of ORET, we observed that ORET transactions files were difficult to access, primarily on paper, and were not always well-ordered. The lack of electronic accessibility and the lack of adequate horizontal M&E information on transactions formed obstacles to synthesising research information at thematic level. Existing M&E information was concentrated on *inputs* and delivery of outputs of transactions and greatly depended on information provided by applicants. The monitoring by ORET.nl focused on dealing with obstacles to implementing transactions if they had been reported in the bi-annual progress reports by applicants or had surfaced during field visits to the projects. Sometimes embassies were directly involved but they did not play a key role unless there was a political issue at stake with a transaction or an application, or if the transaction fitted well in the bilateral sector programmes for a partner country. The desk evaluations ORET.nl conducted on about 50% of the completed transactions offered little verifiable information on outcomes. Such evaluations were often done as a desk exercise: merely ticking boxes and checking that the required documents of a transaction were properly filed.

Based on the transactions in the case studies, we conclude that the quality of the monitoring was on average sufficient. However, the M&E system of ORET could have benefited from collecting more data independently from the applicant. The lack of verifiable evaluation data on outcomes did not support the learning cycle within ORET either. This problem was

raised several times in the policy dialogue between ORET.nl and the Ministry but never effectively addressed. We note that having a proper evaluation protocol was not one of the formal requirements for the tender procedure in 2006 or for the original management contract. Nor was it inserted later at the time of renewal of the contract after a new tendering procedure for the management of ORET. A possible reason may have been the fact that after the programme closed for new applications in August 2007 policy makers turned their attention to the development of ORIO.

In answer to question 1e on the perceptions of the various stakeholders in the implementation of ORET, we conclude that ORET was well perceived in general, both by applicants and clients/recipient governments. The clients in the sampled transactions of ORET were especially appreciative of the flexibility in the application procedure (see paragraph 4.2.1) and the generous financing conditions and other facilities (see paragraph 4.2.2). For the perceptions of applicant companies of ORET we refer to paragraph 3.4. For a description of the role of the various stakeholders we refer to the sections on the appraisal criteria (in paragraph 2.3) and the implementation of ORET in practice (in paragraph 2.5.1). The summaries of the case studies (in Annex 8) describe in more detail how ORET operated in practice.

With respect to question 1f on the application of the OECD tendering rules, we refer to the policy reconstruction in paragraph 2.2. This section describes that the OECD rules on ICBs in specific transactions in LDCs and *ex ante* notification of applications were only fully applied after May 2006. Table 3 lists the type of procurement regimes in all 139 transactions. The picture it reveals is not black and white, with ICB for LDCs and direct award for non-LDCs, but is much more nuanced, with shades of grey too. Of the 43 transactions for LDCs out of the total 139 in the portfolio, 18 transactions were awarded by ICB and 25 by direct award. In the 18 transactions where LDCs did organise an ICB, Dutch companies won 11 tenders. In 69 of the 96 applications in non-LDCs, direct award was the tender method used. A relatively high number (27) of ICBs was nevertheless organised by clients in non-LDCs. In practice, only a few countries that were well organised, such as Ghana, were able to take full ownership of the tendering process and the negotiations with the contractor. One of the ways they did so was by recruiting their own international price consultant for support in the negotiations with the applicant company to secure the best contract price and transaction conditions.

Further in response to question 1f, the only data we were able to find across the board about the extent of subcontracting in transactions was anecdotal. Our impression from this anecdotal information is that the minimum Dutch content rules may have prevented more local subcontracting. In some transactions, more subcontracting could have resulted in cost savings when purchasing standard items (such as PVC pipes) or in more local employment (by hiring more local workers). On the other hand, transactions such as the delivery of buses to Ghana and of navigation vessels to Indonesia were explicitly geared towards local assembly and hence resulted in more local subcontracting and employment. The extent of subcontracting and the sourcing conditions were inversely related in the medical diagnostics project in Tanzania. Because the local supplier was included as a partner for

supply and repair, initially the Dutch content rule was not met. The Dutch supplier solved this problem by redesigning and manufacturing the ultrasound and X-ray equipment with more Dutch components (Müller-Rockstroh, 2007).

For the answer to question 1g on the sourcing of products and services, we refer to paragraph 3.2.6 for the whole ORET portfolio and to paragraph 4.1.2 for the sampled transactions. Annex 6 shows the weighted average for the Dutch content of the sampled transactions was 64%. For the effect of the standard price check on contract prices, we refer to paragraph 4.2.2, where it is concluded that the majority of the applications were market compatible. Concerning the valuation of the price/quality ratio by clients, in the majority of the case studies it was concluded that the clients perceived the works, equipment and services to be relatively expensive but that the quality of the capital goods and the works and the reliability of delivery compared favourably with those of alternative suppliers.

5.3 Efficiency

The Terms of Reference formulated the following questions on efficiency:

2.a. Have the 86 transactions completed in the period 2007–2012 achieved their expected outputs on schedule and within budget? Did the transactions or the larger transactions of which they formed a part experience delays during appraisal, tendering and implementation? If so, what were the main causes of these delays? If agreed outputs were not realised in some transactions, what were the reasons for underperformance in general?

2.b. How efficiently has the programme been administered by ORET.nl? How efficient is ORET in terms of its output/input ratio? How do ORET procedures compare to those of similar infrastructure programmes of the Netherlands?

2.c. Are the ORET procedures for transaction application, appraisal and approval and for monitoring and evaluation considered to be reasonable and efficient by the end users, the suppliers and the financing authorities in recipient countries?

2.d. Have the financing modalities of ORET been pragmatic and flexible enough both for end users and recipient governments on the one hand and for applicants on the other hand, and how do they compare with similar programmes of other donors?

In response to question 2a on whether transactions have achieved their intended outputs on time and within budget, we refer to paragraph 3.2.4. This section describes the average time required for implementation and reasons for delays, the accuracy of the budgeting in transactions and the use of contingency funds to finance unforeseen expenditures for the whole portfolio. Paragraph 4.2.2 assesses in more detail the efficiency in implementing the 24 sampled transactions. This was usually excellent. Hence the general conclusion is that

most transactions were realised very efficiently, i.e. they were mostly implemented by the supplying companies within the agreed period and the agreed budget.

In reply to question 2b on the efficiency of the management of ORET by the two implementing agencies, we refer to the description of the work load of the implementing agencies, the programme disbursements and the administration fees in paragraph 2.5.1. Both FMO and ORET.nl were efficient in the management of the programme but differed in their approach, making benchmarking a challenging task. The annual ratio of the administration fees as a percentage of total programme disbursements for the transactions cannot be regarded as a very good indicator for assessing and comparing the efficiency of the implementing agencies. Applicant companies with experience of both programmes mentioned that ORET had simpler and more efficient procedures than its successor ORIO. This could partly be related to the certainty that applicants would acquire the transaction contract in the tied aid procedure. Some recipients governments, however, expressed that they appreciated the greater ownership and control of the project cycle in the case of ORIO. Overall, it seems that a key success factor of ORET was the flexibility in the triangle between the applicant company, the recipient government and the administrator.

With respect to question 2c, applicants and recipients generally perceived ORET procedures in the application and appraisal phases to be sound and reasonable. Applicants and clients generally demonstrated clear understanding about the time required for the appraisal process and its rigour in view of the complexity of most transactions. ORET was regarded as a reasonably straightforward subsidy programme in the application and appraisal phase. It could sometimes be complicated in the execution of certain complex transactions, especially because of the difficult policy context in a recipient country.

As regards question 2d on the financial conditions of ORET, recipient countries generally appreciated the financing package offered by ORET. This concerned both its general grant conditions, the additional facilities for technical assistance and spare parts and the amounts available for transactions. The availability of ORET funds was rarely an obstacle except at the time of the 'bank run' in 2007 in the run up to the closure of the programme. The attractive financing conditions[13] seem to have often been the decisive factor for recipients to opt for an ORET-funded applicant rather than for other foreign companies that may have had the support of similar infrastructure-financing programmes of their governments. The grant condition of 50% for drinking water transactions in non-LDCs was of course much appreciated by recipients. We conclude nevertheless that this grant element can be considered as having been too generous for this group of recipients. It may also have introduced distortions in the allocation of funds from a sectoral perspective, especially in the case of the non-LDC Ghana. Other bilateral donors did not match the financing terms of ORET for drinking water projects in Ghana, while other ORET transactions in non-LDCs related to 'social' MDGs such as health and education only received the regular 35% grant element. ORET grants were leveraged with a factor 1:2 or 1:3, thereby extending the reach of the programme. Greater flexibility in grant conditions to offer financing packages that are better adjusted to the

[13] Mainly due to the compensation of the one-off financing costs for 75% by the ORET grant.

income status of the recipient and attuned to the extent of non-commercial viability of the underlying transaction could have further enhanced the poverty reach of the ORET programme in terms of the beneficiary countries and also the type of financed infrastructure. The earlier conclusion about being too generous also holds for non-drinking water transactions in certain eligible middle income or even richer countries, such as Vietnam and China, where ORET still provided the normal 35% grant conditions. China and Vietnam either had access to the capital market or adequate budget resources of their own, which probably indicates that they gave lower priority to these transactions.
In ORIO China was indeed removed from the list of eligible countries; Vietnam was to be phased out by the end of 2014 but ORIO closed before that time.

For the methods and the appropriateness of the non-grant funding for the whole portfolio, we refer to the description of financing modalities in paragraph 2.4.1, the relatively small number of applications that were cancelled because commercial export credits did not materialise (see paragraph 3.3), and the relatively high finance cost (bank fees and insurance premium for the credit risk) of insured commercial export credits described in paragraph 3.2.7. We conclude that ORET was not appropriate for offering an alternative format to the mixed credit in the form of a concessional loan for the entire transaction amount. The ORET grant was used to subsidise the interest payments on the loans in two transactions in Sri Lanka. Although ORET as a programme thereby created more flexibility, this format resulted in much higher one-off finance cost of the transaction, largely because of the higher insurance premium. In those two transactions the selected format also seems to have been primarily motivated by the recipient's desire to circumvent the debt sustainability conditions of the IMF that existed at the time, which limited the acquirement of foreign commercial loans. Circumventing the IMF conditions was contrary to the Dutch policy on debt sustainability.

The variance in the one-off finance costs between transactions cannot be easily explained by the differences in risk factors such as the sovereign risk, the end user, and the duration of the credit period, or by the type of transaction. In transactions where sources other than insured export credits were used to finance the non-grant part, such as a letter of credit from another bank, we often lacked detailed information on the finance cost if no claim had been made to have that cost partly compensated from the grant.

Another more general financial sustainability problem was the possible currency mismatch between the euro-denominated debt service costs (interest and amortisation) of the commercial loans related to ORET transactions and the local currency denominated revenues from users or beneficiaries of the financed infastructure such as water tariffs.
In the case of strongly depreciating currencies and user fees that were not adjusted in time, the financial burden for recipient governments in local currency intensified considerably (see Annex 8.3 for the case of Al Manara in Sudan). A few years ago, the problem of currency mismatch prompted FMO in the context of its MASSIF programme for Small and Medium Sized companies in developing countries to introduce local currency loans for their financial intermediaries.

5.4 Effectiveness, including Impact

The Terms of Reference formulated the following questions on effectiveness including impact:

3.a. Did the ORET programme result in the desired effects of stimulating the social and physical infrastructure and enhance the enabling environment for the private sector and sustainable development in recipient countries? Can the evaluation identify key success or failure factors for ORET transactions in recipient countries?

3.b. How was the criterion of development effectiveness of the ORET programme in terms of contributing to sustainable economic development and strengthening the enabling environment generally implemented in practice? Did it go beyond a 'no harm to the poor, women and the environment' test? And did ORET, as a minimum, manage to avoid harm to the poor and women?

3.c. Did the ORET transactions increase local employment directly and possibly indirectly in recipient countries?

3.d. Were ORET grants crucial for the Dutch companies involved to gain access to the markets of developing countries? Did ORET enhance follow-up trade and direct investments by Dutch companies and durable partnerships between Dutch suppliers and end users in recipient countries?

In response to question 3a on the development effectiveness of ORET transactions in terms of the outcomes of the socio-economic infrastructure and improving sustainable development, we refer to the conclusions in the case studies in chapter 4. With a few exceptions, the sampled ORET transactions did substantially contribute to the improvement of socio-economic infrastructure in the recipient countries, adequately enhanced the use of the realised infrastructure by the intended beneficiaries, yielded sufficient long-term benefits to sustainable economic development, and made a sufficient impact on the enabling environment for private sector development. When considering the contribution of ORET transactions to sustainable development and the business climate in recipient countries, one has to take into account the limited leverage of the ORET transactions in view of the generally modest amounts involved (see paragraph 3.2). The summaries of the case studies in annex 8 illustrate some key success factors (or failure factors) in those cases, or describe unintended consequences (both negative and positive) in a few transactions.

Question 3b on the application of development effectiveness, was dealt with during the appraisal of applications, primarily by calculating the internal financial rate of return and the internal economic rate of return in the prescribed feasibility study and assessment by Ecorys. Policy commitments were negotiated in the grant agreement with the recipient government. FMO was particularly insistent that these commitments be related to the effectiveness of the transaction, such as level of user fees, budgets for recurrent cost, additional staff or parallel infrastructure investments (such as bus lanes). Often the leverage

was overestimated resulting in undelivered promises. While ORET.nl was managing ORET, no field missions prior to approval were undertaken to validate the information provided by the applicant. Since each application was appraised individually in the order of the date of submission, and since decisions on funding were based on meeting the minimum criteria, no competition on development effectiveness was stimulated between applications.
In the application phase the direct effects of transactions on the poor and women were estimated by applying a no-harm test on the basis of information provided by the applicant. In general the sampled ORET transactions did not harm the poor or women and on average had a neutral effect. Some transactions did directly benefit the poor and women due to their explicit design or how they turned out in practice, especially in the areas of public transport, drinking water provision and health.

With regard to question 3c on the direct and indirect effects on employment, we were unable to collect reliable information for all transactions in the sample. If information was available in the transaction dossiers, it concentrated on employment generated during implementation. Because of the lack of reliable data and the problem of establishing the attribution or at least the contribution of generated employment to the transaction, the evaluators resorted to estimates based on qualitative information from stakeholders. We conclude that most sampled transactions contributed only moderately to employment opportunities in the recipient countries. The notable exceptions included the rehabilitation of the international airport in Tanzania. This transaction avoided the international certification of the airport being lost and by maintaining the connectivity of the country saved many jobs. Though the transaction was focused more on direct employment effects, one could question the assumptions of its non-commercial viability or the unavailibility of other funding.

Structural employment effects were even more difficult to establish and quantify due to the relative small size of the transaction amounts and the lack of data. Here the evaluators of the case studies also concluded that the ORET transactions had only a modest effect on structural employment in the recipient countries (see paragraph 4.4).

With regard to question 3d on the contribution of ORET transactions in assisting Dutch companies to enter the market of recipient countries (indicator 22) and in strengthening bilateral economic relations (indicator 23), the impact was limited (see paragraph 4.8).
A considerable number of companies (24 of the total of 57) were re-users of ORET in terms of the number of their ORET-funded transactions, sometimes in the same country (particularly in Ghana, China and Tanzania) or sector (notably medical equipment in China). Two thirds of the responding companies in the company survey stated that they were already active in the recipient country before the ORET transaction took place (see paragraph 3.4). In line with the finding of the previous evaluation, we conclude that ORET seems to have facilitated the first entry into the markets of eligible recipients countries for only a few companies.

Most applicant companies were active multinationals; very few companies on the list of applicants can be considered a Small or Medium Enterprise (SME). Some applicants may have managed to secure new orders of the recipient country or the region through the

entrance ORET gave them in the market, but most applicants were already familiar with the market. In other cases, new or repeat orders from the recipient government were fully dependent on aid or ORET funding and would not have been secured without such funds. This is not surprising in view of the limited investment budgets of those governments. Obtaining a foothold in the commercial market of recipient countries, if such a market existed, happened rarely; the exceptions included Damen in Indonesia and Ballast Nedam in Ghana. We conclude that ORET was of very limited value for improving the bilateral economic relations between the Netherlands and recipient countries, except for those countries where ORET was heavily concentrated, such as Ghana, Tanzania and Indonesia.

5.5 Sustainability

The Terms of Reference formulated the following questions on sustainability:

4.a. How sustainable have ORET transactions been in technical, financial and institutional terms? Based on the sample, how do the *ex ante* technical, financial and institutional sustainability established at the appraisal stage compare with these aspects in practice after completion of the transaction or project?

4.b. To what extent were the environmental and safety standards set by the World Bank / IFC applied in practice and did the ORET transactions avoid harm to the environment?

4.c. Where relevant, did the technical assistance component in transactions with an additional grant amount contribute to the realisation of the achieved outcomes and the sustainability of the ORET transactions?

4.d. Did the financial conditions of ORET affect the sustainability of ORET transactions in any way, either positively or negatively?

In response to question 4a and the related question 4c on the sustainability of transactions, we refer to the extensive analysis of the portfolio in paragraph 3.2.8. Strengthening the technical sustainability of transactions and the institutional sustainability of their clients were clearly two of the distinguishing features of ORET that were enhanced over time. The introduction in 2005 of a provision within ORET that offered more grant funds for a longer term for these purposes boosted the number of applications that included components of additional technical assistance and maintenance. Of all 139 transactions, 77% included some form of technical assistance and maintenance. The incorporation of technical assistance and maintenance components and the use of this new facility were, however, directed more towards transactions in non-LDCs than those in LDCs, where at first sight the need would be expected to be greater.

The outcomes of the technical and institutional support in the sampled transactions can be classified as sufficient to reasonably positive. All case study reports emphasise the continuous challenge for the clients and governments to sustain the transactions, as usually

there was a financial problem in the background. It also underlines the importance of making a prior field visit to get a better idea of the capacity of the client and what can and should be done to ensure proper implementation of the transaction and continuation of the activities thereafter. Strengthening the institutional capacity of the client as part of the ORET transaction proved to assist in smoother implementation and a successful operation after the handover of the investment, as illustrated by the buses project in Ghana. That transaction even included the management of the newly created public transport company for a period of six years.

Sustainability also proved to be related to the contract form of the underlying transaction which should preferably be at least turnkey. This implies that the contractor has the responsibility to handover a fully functioning infrastructural service and to train the client's staff in its operation and maintenance. In some transactions, such as those in Ghana for drinking water plants and in Sri Lanka for emergency response and technical education, some sustainability problems arose because recipient government commitments about hiring more staff for the clients were not implemented in practice.

The check on the application of the environmental and safety standards of the World Bank / IFC was done in the application phase of the transaction, usually in the form of a no harm to the environment test. When a significant environmental impact was expected as a direct result of the transaction, e.g. in the case of huge infrastructural works such as a fishery port, an environmental impact assessment was done beforehand, either by the recipient government or FMO/ORET.nl. If necessary, compensatory environmental activities were arranged as part of the transaction, such as the replanting of removed mangroves elsewhere in the case of Champerico. In other transactions the no harm to the environment test was reflected in the product standards that the supplied capital goods were required to meet, e.g. the emission levels and the fuel efficiency of the buses, the diesel engines for the power plants and the navigation vessels. We were unable to collect information on environmental outcomes for all transactions. For the sampled transactions, all projects, with the exception of Champerico, scored positive or neutral on the indicator of "no harm to the environment.

In reply to question 4d on financial sustainability of the transactions and how ORET conditions affected this dimension, we refer to the general description of the financing modalities in paragraph 2.4.1. Paragraph 3.2.7 deals extensively with how the non-grant funding for all transactions in the whole portfolio was arranged and insured against the credit risk, if necessary. The compensation of the one-off finance costs for insured commercial export credits for 75% from the ORET grant supported the insured export credit model of ORET. With 88 of 139 transactions financed and insured in this way, it was not the boilerplate solution everytime. It came with a price tag of considerable finance cost, and subsidising the one-off finance costs from the grant may not have encouraged recipients to find a better financing deal. In some transactions, it may have resulted in more development-related costs such as spare parts and maintenance not being funded.

The more important dimension of financial sustainability is whether the ORET-related projects were able to generate their own income or had hard budgetary commitments from

the recipient government to finance at least the recurrent costs for operation and maintenance. For quite a number of the sampled transactions, this type of financial sustainability is doubtful (see paragraph 4.5). In cases where beneficiaries can be charged for making use of the infrastructural services, it would also be desirable to see part of the investment costs (interest and amortisation of the foreign loan) being covered by equitable user fees from beneficiaries and other revenue from clients, rather than to have the capital cost wholly financed from the government budget. This occurred in only very few sampled transactions, however. Though understandable in the areas of health, education and hard infrastructure, failure to cover the investment costs in this way makes it harder to break the cycle of depending on donor funds for infrastructure financing.

5.6 Relevance

The Terms of Reference formulated the following questions on relevance:

5.a. To what extent have ORET transactions complemented the recipient country's policies in the area of sustainable economic development and the enabling environment for the private sector? Did the availability of ORET-grant financing lead to the proposed transaction having a higher development priority in the recipient country?

5.b. Why has the share of ORET-transactions in LDCs grown over time? Has ORET become more relevant for LDCs? Did changes in procedures, eligibility, higher thresholds for technical assistance or the financing conditions in the 2006 ORET Regulation contribute to this?

In response to question 5a on the relevance of ORET transactions, all transactions in the portfolio had to present a statement of priority from the recipient governments before processing of an application could even begin. The case studies confirm that the underlying ORET transactions responded to situations that required attention, and were regarded a priority by the recipients. To our knowledge they were not supply-driven in terms of relevance, although some doubts were raised in the case of the Philips Medical project in Tanzania. Some transactions in the field of utilities and hard infrastructure contributed more to sustainable economic development and the enabling environment for the private sector, while others in areas such as health, education and drinking water had a greater direct effect on poverty reduction (see paragraph 4.6).

We were unable to establish whether the transactions responded to the highest development priority of a recipient or whether their selection of ORET transactions was influenced by the availability of funds. Recipient countries usually scoured the donor fund market for the best offers available to finance their socio-economic infrastructure needs. This was done with an emphasis on the lowest financing cost in the short term and lowest initial investment cost, rather than on the total cost of providing the infrastructural service over the lifetime of the capital good or infrastructure works. The Al Manara transaction illustrates this shift of capital cost to the future, as does the decision of the public transport company MMT in

Ghana in 2012 to purchase cheaper Indian buses from their retained profits as the quickest way to expand turnover rather than to buy the more expensive VDL buses that had proved to be more cost efficient in the longer term. Funding a transaction with longer-term commercial loans also shifts the financial burden of debt servicing to a future government or minister whereas the political gains of realising the infrastructure can be reaped directly.

Sometimes other arguments such as technology transfer and local assembly seem to have been a decisive factor for opting for an ORET-funded company. Though we were unable to collect information across the board, our impression is that the transactions with the highest political priority were those in which the non-grant part came from the budget funds of the government in question, especially in the case of poorer countries (see paragraph 3.2.7). These transactions may not have been the highest priority seen from a poverty angle but were certainly relevant from the perspective of sustainable economic development.

In answer to question 5b on the share and relevance of ORET for LDCs, we refer to the conclusions in paragraph 3.2.2. After the reopening of the ORET facility for these countries in 2005 the deliberate policy to enhance the share of LDCs in ORET worked reasonably well, in terms of both the number of applications and the size of commitments and disbursements. We note, however, that their growing share in the total grants results from a limited number of large transactions in seven LDCs focused on sustainable economic development. In total, 20 LDCs were served during the research period. The greater availibility of technical assistance after 2005 positively influenced the number of transactions in LDCs but did so even more in the case of non-LDCs (see paragraph 3.2.8).

5.7 Additionality and Catalytic Effect

The Terms of Reference formulated the following questions on additionality and catalytic effect:

6.a. Would the ORET transactions or projects have taken place in the absence of the ORET grants; in other words, was the ORET grant financing additional and was no other funding available to fund the projects?

6.b. Did the ORET grants in general have a catalytic effect by enabling other investors in the larger ORET projects and/or a multiplier effect by stimulating follow-up investments in other sectors or within the geographic region (spatial effects) or did ORET sourcing conditions lead to displacement (local companies could have done the transaction as well) or (unforeseen) distortions of the local market?

6.c. What were the main sources of non-grant financing in ORET transactions in general? Did any problems arise with regard to the disbursements and the debt servicing of the commercial loans and did this affect the implementation of ORET transactions or projects?

Questions 6a and 6b on the additionality and the catalytic effect of ORET grants can only be answered for the case studies. We refer to the conclusion and the supporting evidence in paragraph 4.7 which indicate that ORET funding was by and large additional.

The catalytic effect of sampled transactions was considered positive if other investors in the larger ORET project were enabled and/or follow-up investments in other sectors and the region were stimulated. The catalytic effect could also be negative if the transaction displaced competitors or caused (unforeseen) distortions of the local market. The positive catalytic effect of the sampled transactions in stimulating follow-up investments in other sectors or the region can be regarded as sufficient to modest, which is in line with the limited contribution of ORET to sustainable economic development and the enabling environment. ORET transactions usually addressed only one limiting constraint, such as drinking water, public transport or logistics, for companies or investors. They did not directly trigger other investments but played their modest role in the larger picture.

In response to question 6c on the sources of non-grant financing, we refer to the analysis for the whole portfolio in paragraph 3.2.7 and annex 6 for the sampled transactions. The number of transactions where governments defaulted on their debt service obligations on the commercial loans was almost negligible, and in the few cases of default the default was only temporary and for only a small part of the obligations (see paragraph 3.2.7). In practice there was always a concomitant drawdown of the ORET grant and of the concommittant commercial loan to finance the implementation of the transaction. The rate of disbursement was dependent on meeting the agreed milestones in the contract. Of course sometimes there was disagreement whether a contentious milestone had actually been met, but this was usually resolved amicably by the troika of ORET.nl, the contractor and the client. This also avoided making a claim on the risk policies provided by Atradius DSB for the delivery of capital goods or infrastructural works.

In cases where the non-grant funding was financed from the recipient's own budget resources, other practical solutions were found to guarantee the payment of the non-grant funding, especially if the transaction took a number of years to implement. Examples were the use of the local office of the International Migration Organization as a payment facilitator and custodian of the Guatemalan counterpart funds in the case of Champerico and the scheduling of the delivery of diagnostic equipment in batches dependent on the receipt of payments by Tanzania.

5.8 Policy Coherence

The Terms of Reference formulated the following questions on policy coherence:

7.a. In the case of Dutch partner countries for development cooperation, to what extent have ORET transactions complemented or been integrated into the bilateral Netherlands aid programme? In the case of Dutch priority countries for foreign trade, to what extent have ORET transactions complemented Dutch economic diplomacy efforts towards recipient countries?

7.b. What was the role of other Dutch export promotion instruments, such as the availability of commercial loans, the depth of coverage of export credit insurance of export credit loans by Atridius and the subsidy facilities of the Ministry of Economic Affairs in co-financing preparatory costs of developing transaction proposals by applicants?

7.c. To what extent has the worldwide, multi-sector character of the ORET programme and the lack of country allocations affected the possibilities for using ORET strategically to build sustainable trade and investment relationships with developing countries or clients?

In response to question 7a on the coherence with the bilateral aid programmes for partner countries, we refer to the conclusion in paragraph 4.8. ORET generally showed limited synergy with the Dutch aid programme in partner countries, either with the chosen priority sectors in the bilateral aid programme or with other centrally managed private sector development instruments which were also available to a broader category of recipients. The extent of coherence depended partly on whether the Dutch embassy in a development partner country was pro-active in acquiring ORET applications (as occurred in Ghana), even if the transactions did not fit in the bilateral sector programmes.

ORET transactions also played a minor role in complementing Dutch economic diplomacy efforts, partly because of the limited overlap between the trade priority countries of the Ministry of Economic Affairs and ORET-eligible countries, and partly because of the modest amounts in relation to the regular bilateral trade and investment flows. There was only a very limited effect on broader bilateral trade and economic relations with recipient countries, except for a few countries where ORET transactions were very concentrated, such as Ghana, or where bilateral economic ties were already quite intensive, such as Indonesia (see paragraph 4.8).

For a reply to question 7b on the role of supportive instruments to enable ORET transactions, we refer to the conclusion on supportive instruments(see indicator 24, paragraph 4.8): it indicates that the combination of supportive instruments was helpful to enable ORET transactions but not always essential for the exporter or the recipient. We conclude that the calculation of a credit risk premium over the grant amount by Atradius DSB – in combination with insured commercial export credits – and the compensation of this premium from the grant is an example of incoherent policy.

Finally, question 7c deals with the possible relation between, on the one hand, the centrally managed and applicant-driven character of ORET, the long list of eligible countries and the lack of indicative ceilings for target countries, and – on the other hand – a strategic role of ORET in building sustainable trade and investment relationships. Our conclusion is negative: the dispersion of relatively modest grant amounts over so many eligible countries and the lack of an allocation instrument to steer transactions made this impossible from the start.



Annexes

Annex 1 About IOB

Objectives

The remit of the Policy and Operations Evaluation Department (IOB) is to increase insight into the implementation and effects of Dutch foreign policy. IOB meets the need for the independent evaluation of policy and operations in all the policy fields of the Homogenous Budget for International Cooperation (HGIS). IOB also advises on the planning and implementation of evaluations that are the responsibility of policy departments of the Ministry of Foreign Affairs and embassies of the Kingdom of the Netherlands. Its evaluations enable the Minister of Foreign Affairs and the Minister for Foreign Trade and Development Cooperation to account to parliament for policy and the allocation of resources. In addition, the evaluations aim to derive lessons for the future. To this end, efforts are made to incorporate the findings of evaluations of the Ministry of Foreign Affairs' policy cycle. Evaluation reports are used to provide targeted feedback, with a view to improving the formulation and implementation of policy. Insight into the outcomes of implemented policies allows policymakers to devise measures that are more effective and focused.

Organisation and Quality Assurance

IOB has a staff of experienced evaluators and its own budget. When carrying out evaluations, IOB calls on assistance from external experts with specialised knowledge of the topic under investigation. To monitor the quality of its evaluations, IOB sets up an external reference group for each evaluation, which includes not only external experts, but also interested parties from within the ministry and other stakeholders. Moreover, IOB appoints a number of IOB-evaluators for each evaluation to act as peer reviewers. IOB's evaluation policy and guidelines for evaluation are available on the IOB website, hard copies can be requested through the IOB-secretariat.

Programming of Evaluations

IOB consults with the policy departments to draw up a Ministry-wide evaluation programme. This rolling multi-annual programme is adjusted annually and included in the Explanatory Memorandum to the Ministry's budget. IOB bears final responsibility for the programming of evaluations in development cooperation and advises on the programming of foreign policy evaluations. The themes for evaluation are arrived at in response to requests from Parliament and from the Ministry, or are selected because they are issues of societal concern. IOB actively coordinates its evaluation programming with that of other donors and development organisations.

Approach and Methodology

Initially IOB's activities took the form of separate project evaluations for the Minister for Development Cooperation. Since 1985, evaluations have become more comprehensive, covering sectors, themes and countries. Moreover, since then, IOB's reports have been submitted to Parliament, thus entering the public domain. The review of foreign policy and a reorganisation of the Ministry of Foreign Affairs in 1996 resulted in IOB's remit being extended to cover the entire foreign policy of the Dutch government. In recent years it has

extended its partnerships with similar departments in other countries, for instance through joint evaluations and evaluative activities undertaken under the auspices of the OECD/DAC Network on Development Evaluation. IOB has continuously expanded its methodological repertoire. More emphasis is now given to robust impact evaluations implemented through an approach in which both quantitative and qualitative methods are applied. IOB also undertakes policy reviews as a type of evaluation. Finally, it conducts systematic reviews of available evaluative and research material relating to priority policy areas.

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Annex 3 Comparing ORET and ORIO

Table A – 1 Comparing ORET and ORIO

Objectives/Criteria	ORET 2006	ORIO 2009 and 2012
Objectives	Development of relevant export transactions to strengthen sustainable economic development and improve the business climate in eligible developing countries.	Development of relevant infra-structure with impact on the realisation of MDGs in eligible developing countries; more accessible to SMEs in developing countries and the Netherlands.
Project cycle	Initiative and project preparation rest with applicant, preparatory costs partly subsidised by a separate PESP facility. Co-funding of infrastructure implementation and of maintenance and operation.	Recipient government has ownership, but consultants heavily involved. Project development in phase 1 (fully subsidised for LDCs and 50% subsidised for non-LDCs) and implementation in co-financed phase 2. Co-funding for complete project cycle.
Character of facility	Subsidy facility subject to General Subsidy Law and budget ceiling. Pipe-line approach to applications.	Finance facility not subject to the General Subsidy Law. Initially a beauty contest on basis of development relevance, twice-yearly tender rounds with 50% of available annual budget of EUR 120 million. Since 2013, a return to the pipeline approach.
Country and sector focus	Two lists of beneficiary countries: list A (44 non-LDCs) and list B (47 LDCs). India and South Africa later deleted from list (India in 2006, South Africa in 2007. No sector focus. No country focus but demand-driven, resulting in 6–7 heavy users with more than EUR 20 million in 2007–2012.	Two list of beneficiary countries: ORIO-A (29 LDCs) and ORIO-B (24 non-LDCs). Included were 40 partner countries at the time, and non-partner LDCs (if ECI was available). Commitments were also possible in exit aid partner countries and seven high potential export countries (Algeria, Philippines, Morocco, Montenegro, Peru, Serbia and Thailand) until 2012, and in Vietnam until 2015. Transition facility outside ORIO for China and India. Initial focus on 2-3 sectors linking up with bilateral development programme in partner countries if relevant. Sector focus was dropped in 2012.

Objectives/Criteria	ORET 2006	ORIO 2009 and 2012
Tying status	Tied for non-LDCs: direct award. After 1-1-2005 *de facto* untied for LDCs, after 1-5-2006 also *de jure* untied for LDCs (ICB).	Fully (*de jure*) untied for LDCs: ICB for both phases. Also *de jure* untied for South Africa and 3 non-LDC HIPC countries (Bolivia, Ghana and Nicaragua) after May 2008 OECD decision. *De facto* untied at programme level for non-LDCs, with non-Dutch applicants able to submit applications but no ICB in phase 2.
Distinction between LDCs and non-LDCs	Higher grant percentage (50% instead of 35% of transaction amount). Water facility for drinking water and sanitation projects for both LDCs and non-LDCs with grants up to 50%. Closed for LDCs between 2002–2004 but reopened in 2005. In 2006 initial ceiling limit of 30% of budget for transactions in LDCs dropped.	In phase 1 development cost for LDCs eligible for 100% grant. For LDCs grant percentage ranging from 30–60% in line with multilateral debt sustainability framework. In fragile states, grants up to 80% or more. Grant percentage 35% for transactions in non-LDCs. Commitment to increase spending (50% of funds) in LDCs until 2011, with obligation thereafter.
Benefits to the Dutch economy	Not explicit, but informal in screening criteria.	None, but more linkage with sectors where Dutch companies can offer added value.
Percentage of minimum Dutch content	50% minimum Dutch content (with exceptions) for non-LDC's only. For LDC's maximum 50% local production possible.	50% minimum Dutch content rule abolished and more options to use local SMEs. Dutch content rules of Atradius remained applicable to ECI-covered export credit (criterion for foreign content > 50%).
Financing arrangements	Grant combined with separate non-grant funds, usually an insured commercial export credit but also from other sources. Mixed credit (concessional loan with grant and capitalised future interest payments) in a few transactions. Finance cost (bank fees and insurance premimum) eligible for up to 75% compensation from grant.	In addition, combination of grant (1/3) with export credit (2/3), with compensation of finance cost from the grant in the same ratio.

Objectives/Criteria	ORET 2006	ORIO 2009 and 2012
Coherence with Dutch development policy at country level	Not required. Informal link with PESP for preparatory cost. Until 2008, additional facility (GOM) of Ministry of Economic Affairs linked to ORET to cover greater insurance risk on export credits for countries where Atradius was not available. Later integrated in general insurance policy of Atradius.	Initially through sector focus in partner countries and linkages with PRSPs of partner countries. Stronger involvement of Dutch embassies.
Explicit criteria on women, poor and environment	Social policy checklist. Impact on women and poor 'field of attention' in feasibility study.	Not explicitly mentioned but linkage to realisation of MDGs.
Special Technical Assistance Facility	Part of 2006 Regulation allowing up to 75% of cost of technical assistance and institutional strengthening of end user for a maximum period.	Technical assistance and also maintenance and operation integral part of project design throughout lifetime of projects.
Monitoring & evaluation	No clear provisions except for the prescribed format for progress reports and end reports by applicants and ad hoc field visits by ORET.nl that focused on operational problems.	Clear M&E protocol with procedures and budgets, especially after introduction of the 2011 PSD protocol.

Annex 4 A Scorecard for the Case Studies

Table A – 2 A Scorecard for the Case Studies

Criteria	Indicators	Information needed / assessment
EFFICIENCY: comparing inputs with outputs		
I. Quality of *ex ante* appraisal and monitoring/evaluation of the transaction	1. Quality of *ex ante* appraisal of project's development relevance for the recipient country	Appraisal of the transaction's contribution to sustainable economic development of recipient country
	Score:	According to the information available at the time of appraisal: A. The project would have significant economic benefits B. The project would have economic benefits C. The project would not create significant economic benefits (should only have been approved on the basis of extra conditions) D. The project would not create any economic benefits (should not have been approved on the basis of information available at the time)
	2. Quality of the monitoring and evaluation of the transaction	Appraisal of the quality and content of the progress reports and evaluation reports (desk evaluations or otherwise) to get insight in the realisation of outputs, outcomes and impact, obstacles and constraints in the implementation and other relevant factors compared to the situation in the field.
	Score:	According to the information that was available: A. The monitoring reports and desk evaluation offer an excellent overview of the progress of the transaction and its outcomes/impact and allow a judgment to be made about impact B. The monitoring reports and desk evaluation offer a good overview of the progress of the transaction and its outputs and outcomes C. The monitoring reports and desk evaluation only offer a limited view of the progress and the realisation of outputs D. The monitoring reports and desk evaluation offer no view of the progress and the realisation of outputs or are non-existent

Criteria	Indicators	Information needed / assessment
II. Realisation of transaction activities and price/quality ratio of goods, services and/or works	3. Extent to which planned transaction activities have been carried out and outputs realised	Planned activities and outputs compared to completed activities and realised outputs
	Score:	A. 100% of the planned transaction activities have been carried out and outputs realised B. 70–90% of the planned transaction activities have been carried out and outputs realised C. 50–70% of the planned transaction activities have been carried out and outputs realised D. <50% of the planned transaction activities have been carried out and outputs realised
	4. Price/quality ratio of goods, services and/or works, as perceived by client, taking into account the 50–60% rule	Price/quality ratio of goods, services and/or works delivered by Dutch supplier using ORET grant compared to price/quality ratio of goods, services and/or works delivered by other suppliers
	Score:	A. The actual price/quality ratio is perceived to be higher than expected on the basis of the agreement B. The actual price/quality ratio is perceived to be in accordance with the agreement C. The actual price/quality ratio is perceived to be lower than expected on the basis of the agreement D. The actual price/quality ratio is perceived to be much lower than expected on the basis of the agreement
	5.Cost-effectiveness of the financing package	The finance costs (FC) of the transaction, i.e. the cost of the non-grant funding (cost of one-off bank fees and possible cost of export credit insurance premium) as a percentage of the non-grant funding
	Score:	A. The finance cost of the non-grant funding has been FC < 2% B. The finance cost of the non-grant funding has been 2% < FC < 7% C. The finance cost of the non-grant funding has been 7% < FC < 12% D. The finance cost of the non-grant funding has been FC > 12%

Criteria	Indicators	Information needed / assessment
EFFECTIVENESS: extent to which outputs have contributed to the transaction's expected results at outcome level		
III. Achievement of expected results of transaction in the field of economic development and employment in the recipient country that can be attributed to the project	6. Extent to which the infrastructure / client's capacity has improved to serve end users as expected	Expectation in the appraisal document versus actual realisation in the field (benchmark: appraisal memorandum and not a counterfactual)
	Score:	A. The expected infrastructural/capacity improvement has been 100% realised or exceeded B. 70–90% of the expected infrastructural/capacity improvement has been realised C. 50–70% of the expected infrastructural/capacity improvement has been realised D. <50% of the expected infrastructural/capacity improvement has been realised
	7. Extent to which the improved infrastructure / client's capacity is used in practice or serves the intended end users	Expectation in the appraisal document versus actual realisation provided that adequate data are available or a judgment can be made
	Score:	A. The expected use of the infrastructural/capacity improvements has been 100% realised or exceeded B. 70–90% of the expected use of the infrastructural/capacity improvements has been realised C. 50–70% of the expected use of the infrastructural/capacity improvements has been realised D. <50% of the expected use of the infrastructural/capacity improvements has been realised
	8. Impact of the project on sustainable economic development and improvement of business climate	Contribution of the expected impact of the outcomes of the project to sustainable economic development and improvement of the business climate in the recipient country: expected versus actual
	Score:	A. The project has contributed significant long-term benefits to sustainable economic development B. The project has contributed long-term benefits to sustainable economic development as foreseen C. The project has created few of the foreseen long-term economic benefits D. The project has not created any long-term economic benefits

Criteria	Indicators	Information needed / assessment
III. Achievement of expected results of transaction in the field of economic development and employment in the recipient country that can be attributed to the project	9. Extent to which expected direct and indirect employment has been realised by the project	Number of structural jobs directly related to the project itself and with suppliers and customers: expectation versus actual
	Score:	A. The expected number of jobs has been provided B. 70–90% of the expected number of jobs have been provided C. 50–70% of the expected number of jobs have been provided D. <50% of the expected number of jobs have been provided
	10. Extent to which the interests of the poor have not been harmed as a direct result of the project	Achievement of expected results of transaction with regard to positive effects or avoidance of harm on the poor that can be attributed directly to the transaction (benchmark: appraisal memorandum)
	Score:	A. Employment, income and/or access increased compared to the situation before the start of the project B. Employment, income and/or access did not change compared to the situation before the start of the project (no harm/neutral) C. Employment, income and/or access decreased compared to the situation before the start of the project D. Employment, income and/or access decreased significantly compared to the situation before the start of the project
	11. Extent to which the interests of women have not been harmed as a direct result of the project	Achievement of expected results of transaction with regard to positive effects on or avoidance of harm to women that can be attributed directly to the transaction (benchmark: appraisal memorandum)
	Score:	A. Employment, income and/or access increased compared to the situation before the start of the project B. Employment, income and/or access did not change compared to the situation before the start of the project (no harm/neutral) C. Employment, income and/or access decreased compared to the situation before the start of the project D. Employment, income and/or access decreased significantly compared to the situation before the start of the project

Criteria	Indicators	Information needed / assessment
IMPACT: extent to which the outcomes contribute to the programme's overarching objectives, plus other, unplanned, effects, both direct and indirect, positive and negative (only for case studies with surveys)		
IV. Achievement of programme's objectives relating to sustainable economic development and improvement of the business climate and other, not planned, effects	12. Structural effects on employment in the recipient country	Increase/decrease in the number of structural employment opportunities as a result of the project and the realised infrastructure
	Score:	A. The number of indirect structural employment opportunities has increased significantly compared to the situation before start of the project (or effects have been more positive than expected) B. The number of indirect structural employment opportunities has increased compared to the situation before start of the project (or effects have been positive, as expected) C. The number of indirect structural employment opportunities has not changed compared to the situation before start of the project (or effects have been less positive than expected) D. The number of indirect structural employment opportunities has decreased compared to the situation before start of the project (or effects have been far less positive than expected)
	13. Effects on the recipient country's economy and on its business climate	Improvement/deterioration of the business climate (less obstacles for productive investments and more investment) that can be attributed to the project or to which it has contributed. Comparing the appraisal with the field research.
	Score:	A. The business climate has improved significantly compared to the situation before the start of the project (or effects have been more positive than expected) B. The business climate has improved compared to the situation before the start of the project (or effects have been positive as expected) C. The business climate has not change compared to the situation before the start of the project (or effects have been less positive than expected) D. The business climate has deteriorated compared to the situation before the start of the project (or effects have been far less positive than expected)

Criteria	Indicators	Information needed / assessment
SUSTAINABILITY: extent to which the transaction activities can be continued independently after completion of the transaction		
V. Sustainability of the transaction	14. Degree of technical sustainability	Provision of user manuals, training, maintenance contract, spare parts, etc. resulting in a higher percentage of goods, services and/or works still operational x years after completion of the transaction
	Score:	A. Technically speaking, the client has been fully able to continue the project independently (significant technical knowledge transfer and other required means) and with sufficient trained staff retained B. Technically speaking, the client has been able to continue the project independently (enough technical knowledge transfer and trained staff) but faces other obstacles; 80–100% of goods still operational C. Technically speaking, the client has been able to continue the project only by improvisation (spare parts or retained trained staff) and <80% of goods still operational D. The project collapsed because the client was totally unable to continue the project (no technical knowledge transfer, no trained staff retained or sufficient spare parts).
	15. Degree of financial sustainability	1) Income generated (transactions that generate their own income or have the potential to do so) 2) Cost-effectiveness and existence of safeguards to finance recurrent costs for operation and maintenance (transactions that do not generate sufficient income)
	Score:	A. 1) The project generated more income than strictly necessary to finance operational and maintenance costs; 2) The project was set up very efficiently and/or there are significant safeguards for replacement B. 1) The project generated between 70–90% of the required income to finance operational and maintenance costs; 2) The project was set up efficiently and/or there were safeguards/alternative sources of finance C. 1) the project generated between 50–70% of the income required to finance operational and maintenance costs; 2) the project was set up inefficiently and/or there were few safeguards D. 1) the project generated less than 50% of the required income to finance operational- and maintenance costs / 2) the project was set up very inefficiently and/or there were no safeguards

Criteria	Indicators	Information needed / assessment
V. Sustainability of the transaction	16. Degree of institutional sustainability	Client's capacities to manage and continue the transaction and its ability to retain trained staff
	Score:	A. In institutional terms, the client has been fully able to continue the project independently B. In institutional terms, the client has been able to continue the project independently with some further assistance C. In institutional terms, the client faced substantive problems in continuing the project independently D. In institutional terms, the client has been unable to continue the project independently and lacked the trained staff to do so
	17. Extent to which the environment has not been damaged as a direct result of the transaction	Improvement/deterioration of the environment as a direct result of the project
	Score:	A. The environment improved compared to the situation before the start of the project B. The environment did not change compared to the situation before the start of the project (no harm/neutral) C. The environment deteriorated compared to the situation before the start of the project D. The environment deteriorated significantly compared to the situation before the start of the project

Criteria	Indicators	Information needed / assessment
RELEVANCE: extent to which the effects of the transaction make a sustainable contribution to the ultimate objectives		
VI. Relevance of the project for the country's policy and sustainable economic development	18. Project's policy relevance for the recipient country	The relative importance of the project for recipient country's national and/or sub-national economic and social policies: comparing expected contribution with the realisation (benchmark appraisal memorandum)
	Score:	A. The project had the highest priority in terms of the recipient country's policy and involvement of the Ministry of Finance B. The project was one of the sector priorities of the recipient country's policy C. The project was not one of the priorities of the recipient country's policy (should only have been approved on the basis of extra conditions such as guarantees for recurrent cost financing) D. The project was of no importance for the recipient country's policy (should not have been approved on the basis of information available at the time)

Criteria	Indicators	Information needed / assessment
ADDITIONALITY: the counterfactual and catalytic effect of the transaction		
VII. Additionality and catalytic effect of the transaction	19. Additionality	Would the transaction have happened without the ORET grant financing or were other financial sources available to finance the transaction by comparing what would have happened in the absence of the ORET grant to what actually happened?
	Score:	A. The ORET grant was crucial for the execution of the transaction and would not have happened without it B. The ORET grant was relevant for the execution of the transaction; not very important but would not have happened otherwise C. The ORET transaction was relevant but went ahead mainly because of the attractiveness of the ORET-financing D. The ORET transaction was in fact commercially viable and could have been financed by other commercial sources
	20. Catalytic effect	Did the ORET grant/transaction catalyse other funds and/or did the infrastructure have a multiplier effect by stimulating follow-up productive investments in the same sector or other sectors or in the region, or did it displace other investors and distort local competition?
	Score:	A. The ORET transaction catalysed other financial sources and enabled other investors to build on the infrastructure B. The ORET transaction merely catalysed other financial sources but made the transaction possible C. The ORET transaction was neutral in terms of catalysing effect or follow-up investment D. The ORET transaction displaced local companies or distorted local competition

Criteria	Indicators	Information needed / assessment
POLICY COHERENCE: the extent of complementarity and synergy with other Dutch policies		
VIII. Complementarity of transaction with Dutch trade, aid and finance policies	21. Realisation of the Dutch component in the transaction amount	Was the ORET criterion of a minimum Dutch component (50–60% depending on the year of submission) met? Compare the appraisal memorandum with the actual Dutch component in the accountant's audit report.
	Score:	A. The actual Dutch component was ≥70% B. The actual Dutch component was between 60–69% C. The actual Dutch component was between 50–59% D. The actual Dutch component was <50%
	22. Extent to which repeat orders have increased or other spin-offs as a result of the transaction/project	Did the ORET transaction assist the applicant company in accessing the market of the recipient country or countries in the region and lead to repeat orders or have other spin-offs?
	Score:	A. The project has generated repeat orders for the applicant worth >100% of the original transaction value B. The project has generated repeat orders for the applicant worth between 51–100% of the original transaction value C. The project has generated repeat orders for the applicant worth between 1–50% of the original transaction value D. The project has not generated any repeat orders for the applicant

Criteria	Indicators	Information needed / assessment
VIII. Complementarity of transaction with Dutch trade, aid and finance policies	23. Indirect effects on other Dutch exporters and the bilateral economic/ trade relationships	Increase/decrease of Dutch exports (orders for other companies and spin-offs) as an indirect result of the project. Improvement/deterioration of long-term economic/ trade relationships as an indirect result of the project.
	Score:	A. Dutch export and economic/trade relations improved significantly compared to the situation before the start of the project (or: effects were more positive than expected) B. Dutch export and economic/trade relations improved compared to the situation before the start of the project C. Dutch export and economic/trade relations did not change compared to the situation before the start of the project (no harm/neutral) (or: effects were less positive than expected) D. Dutch export and economic/trade relations deteriorated compared to the situation before the start of the project
	24. Complementarity with other trade policy instruments	The extent to which other supportive Dutch instruments were necessary to make the ORET transaction possible, such as a PESP subsidy for the feasibility study, compensation of finance costs and insurance coverage from Atradius DSB to secure the export credit against the risk of non-payment.
	Score:	A. The combination of PESP and insurance coverage for a long-term export credit was vital to secure the non-grant funding and necessary for the recipient B. The combination of supportive instruments was helpful but not absolutely necessary for either the exporter or the recipient C. One or two of the supportive instruments were required for either the exporter or the recipient D. The transaction did not need the support of these supportive instruments but received it anyway

Criteria	Indicators	Information needed / assessment
VIII. Complementarity of transaction with Dutch trade, aid and finance policies	25. Synergy with other aid instruments	To what extent did the ORET transaction fit in the Dutch development cooperation programme for the partner country or complement other PSD instruments in that country?
	Score:	A. The ORET transaction was fully integrated into the bilateral aid programme with strong involvement of the Dutch embassy in the identification, programming and monitoring B. The ORET transaction was complementary to other PSD instruments in the recipient country, with strong involvement of the Dutch embassy in the identification, programming and monitoring C. The ORET transaction was not complementary to other PSD instruments in the recipient country but had some involvement of the Dutch embassy in the identification, programming and monitoring of the transaction D. The ORET transaction was isolated and had no involvement of the Dutch embassy in the identification, programming and monitoring
	26. Coordination with debt sustainability policy of the Netherlands	Was there a check on the effect of the financing of the transaction on the debt sustainability of the recipient and did the transaction ultimately improve/worsen the debt situation of the country, e.g. reflected. in the non-payment of the debt service of the loan or in the capacity to generate or save foreign currency?
	Score:	A. The ORET transaction and its financing conditions were fully in line with the IMF / World Bank Debt Sustainability Framework and improved the capacity to generate or save foreign currency B. The ORET transaction and its financing conditions were in line with the IMF / World Bank Debt Sustainability Framework and neutral in terms of the capacity to generate or save foreign currency C. The ORET transaction and its financing conditions were in line with the IMF / World Bank Debt Sustainability Framework but required further international loans to be sustained D. The ORET transaction and its financing conditions were not in line with the IMF / World Bank Debt Sustainability Framework and worsened the debt sustainability of the recipient

Annex 5 Completed Scorecard for the 13 Case Studies

Table A – 3 Completed Scorecard for the 13 Case Studies

Indicator	Ghana				Sudan	Guatemala	Tanzania		Bangladesh	Indonesia		Sri Lanka	
	Buses	Water			Water	Fishery Port	Medical Diagnostics	Airport	Railway Signalling	Power Supply	Vessels	Emergency Services	Technical Education
		Kwanyaku	Tamale	Barakese									
Efficiency													
I. Quality of appraisal and evaluation													
1													
2													
II. Realisation of transaction and price/quality ratio													
3													
4													
5													
Effectiveness													
III. Achievement of expected results and contribution of outcomes													
6													
7													
8													

Indicator	Ghana				Sudan	Guatemala	Tanzania		Bangladesh	Indonesia		Sri Lanka	
	Buses	Water			Water	Fishery Port	Medical Diagnostics	Airport	Railway Signalling	Power Supply	Vessels	Emergency Services	Technical Education
		Kwanyaku	Tamale	Barakese									
III. Achievement of expected results and contribution of outcomes													
9													
10													
11													
Impact													
IV. Impact of transaction													
12													
13													
Sustainability													
V. Sustainability of transaction													
14													
15													
16													
17													
Relevance													
VI. Relevance of transaction for the recipient country													
18													

Indicator	Ghana				Sudan	Guatemala	Tanzania		Bangladesh	Indonesia		Sri Lanka	
	Buses	Water			Water	Fishery Port	Medical Diagnostics	Airport	Railway Signalling	Power Supply	Vessels	Emergency Services	Technical Education
		Kwanyaku	Tamale	Barakese									
Additionality													
VII. Additionality and Catalytic Effect of the transaction													
19	A	B	B	B	A	A	A	C	B	B	B	C	C
20	A	B	B	B	A	C	B	B	B	B	B	C	B
Policy Coherence													
VIII. Complementarity to other Dutch policies													
21	B	B	B	B	C	B	A	D	A	A	B	A	B
22	C	B	A	A	B	C	B	A	D	B	A	D	D
23	B	C	C	C	D	D	C	B	C	B	B	C	B
24	B	A	B	A	B	C	B	A	C	C	B	C	C
25	C	B	B	B	B	C	A	A	C	C	C	C	C
26	A	B	B	B	B	C	B	A	C	B	B	B	B

A: 100-75 B: 75-50 C: 50-25 D: 25-0

Annex 6 Key Data on the Transactions in the Case Studies (definitive figures in EUR and %)

Period	Project Title	Applicant	End User	Transaction Amount
A. Wet Infrastructure and Sanitation				
2002-2010	Kwanyaku Water Supply (GH00028)	Denys Engineers	Ghana Water Company (GWCL)	24,112,974
2006-2011	Kwanyaku Water Supply (GH00145)	Denys Engineers	GWCL	4,029,475
2007-2013	Kasoa Interconnection (GH/ WMO7094)	Denys Engineers	GWCL	12,230,167
Total Kwanyaku (Ghana)				**40,497,167**
2005-2011	Barakese Water Supply (GH00137)	Ballast Nedam	GWCL	37,370,134
2004-2012	Tamale Water Supply (GH00124)	Biwater Contracting**	GWCL	44,999,870
Total Ghana water				**122,923,804**
2005-2010	**Guatemala** Champerico (GT00017)	Van Oord Marine Contractors	EPNAC	23,717,000
2005-2011	**Guatemala** Champerico (GT00018)	Royal Haskoning BV	EPNAC	1,300,914
Total Champerico, Guatemala				**25,017,914**
2005-2020	**Sudan** Omdurman Water Supply (SD00003)	Biwater Contracting**	Khartoum State Water Company (KSWC)	ORET 44,287,425 Total 88,235,007
B. Health Care and Education				
1997-2007	**Tanzania** Diagnostic Services (TZ00030)	Philips Medical Systems	Ministry of Health Tanzania	26,774,848
2006-2012	**Sri Lanka** Technical Education (LK00081)	Gemco International Engineers	Institute Advanced Technical Education	10,900,000

Definitive Grant	Non-Grant Funds*	Grant Share	One-off Costs Non-Grant Finance	PESP	ECI	ICB	TA	Dutch Content
8,447,600	15,688,400 (Com)	35%	3,244,322 (20.7%)	x	✓	x	✓	57%
2,086,637	1,942,838 (Com)	52%	287,133 (14.5%)	x	✓	x	x	67%
6,323,384	5,906,783 (Com)	52%	677,675 (11.5%)	x	✓	x	x	80%
16,862,410	**23,546,924 (Com)**	**42%**	**4,209,130 (17.8%*)**					**65%**
19,733,090	17,637,044 (Com)	53%	2,691,563 (15.3%)	x	✓	x	✣	67%
23,571,089	21,428,781 (Com)	53%	2,757,192 (13.0%)	x	✓	x	✓	51%
60,345,500	**62,416,076 (Com)**	**49%**	**9,657,885 (15.5%*)**					
8,405,217	15,311,783 (Own)	35%	n.a.	✓	✓	x	x	66%
586,129	714,785 (Own)	45%	0	x	x	x	✣	85%
8,991,346	**16,026,321 (Own)**	**36%**						**67%**
24,358,084	19,976,272 (Com)	55%	0	x	x	x	✓	72%
24,358,084	63,922,854 (Com)						✣	
16,064,909	10,709,939 (Own)	60%	0	✓	x	x	✓	73%
4,176,000	6,724,000 (Com)	38%	905,988 (13.5%)	x	✓	x	✓	52%

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Period	Project Title	Applicant	End User	Transaction Amount
C. Dry Infrastructure and Agriculture				
2003- 2009	**Tanzania** Airport Power Supply	Strukton	Tanzania Airport Authority	6,424,840
2001-2011	**Tanzania** Airport Rehabilitation (TZ00039)	Interbeton BV	Tanzania Airport Authority	22,956,332
2005-2012	**Tanzania** Airport Rehabilitation (TZ00108)	Howard Humphry Limited**	Tanzania Airport Authority	845,000
2005-2013	**Tanzania** Airport Rehabilitation (TZ00114)	Interbeton BV	Tanzania Airport Authority	26,333,770
2006-present	**Tanzania** Airport Rehabilitation (TZ00119)	Sir Frederick Snow & Partners Ltd.	Tanzania Airport Authority	590,727
Total Tanzania Airport Rehabilitation				**57,150,669**
D. Utilities				
1999-2008	**Ghana** 100 buses (GH00020)	VDL Bus International	Metro Mass Transport (MMT)	12,766,085
2002-2007	**Ghana** 100 buses (GH00029)	VDL Bus International	MMT	14,693,000
2005-2011	**Ghana** 150 buses (GH00039)	VDL Bus International	MMT	23,150,000
2007-2014	**Ghana** 150 buses (GH/ID07056)	VDL Bus International	MMT	22,982,186
Total Ghana 500 buses				**73,591,211**
2005-2011	**Indonesia** tender vessels (ID00250)	Damen BV	Ministry of Communications	35,983,719
2003-2007	**Indonesia** power plants (ID00025)	Wärtsilä Nederland BV	PT PLN, public utility company	13,509,000
2004-2011	**Indonesia** power plants (ID00030)	Wärtsilä Nederland BV	PT PLN, public utility company	11,013,329
Total Indonesia Power Plants				**24,522,329**
2000-2010	**Bangladesh** railway signalling (BD00023)	Vialis Railway Systems BV	Bangladesh Railways	8,493,475
2005-2011	**Sri Lanka** emergency response system (LK00074)	SAR Systems BV	Ministry Provincial Councils Local Government	30,799,189

* Sources of non-grant funding: Com: commercial bank loans, either long-term export credits or shorter-term supplier's letters of credit; Own: the recipient government's own budgetary funds; Th: third party funds from another donor.

Definitive Grant	Non-Grant Funds*	Grant Share	One-off Costs Non-Grant Finance	PESP	ECI	ICB	TA	Dutch Content
3,279,801	3,145,039 (Own)	51%	0	✓	x	x	✓	62%
11,165,778	11,790,554 (Com)	49%	1,895,999 (16.1%)	x	✓	✓	x	63%
431,770	413,230 (Com)	51%	55,696 (13.5%)	x	✓	✓	x	52%
14,557,061	11,776,709 (Com)	55%	2,388,324 (20.3%)	x	✓	x	x	50%
443,045	147,682	75%	0	x	x	x	✓	unknown → ongoing
29,877,455	**27,273,214 (Own & Com)**	**52%**	**4,340,019 (18.1%)**					
4,468,130	8,297,955 (Com)	35%	729,980 (8.8%)	x	✓	x	✓	65%
5,142,550	9,550,450 (Com)	35%	1,034,000 (10.8%)	x	✓	x	✓	62%
8,948,781	14,201,219 (Com)	38.7%	1,470,908 (10.5%)	x	✓	x	✓	57%
9,042,312	13,939,814 (Com)	39.3%	1,607,504 (11.5%)	x	✓	x	✣	60%
27,601,773	**45,874,610 (Com)**	**37.5%**	**4,842,392 (10.5%)**					
13,524,329	22,459,390 (Com:22,450,390)	38%	2,794,218 (12.5%)	x	✓	x	✓	70%
4,606,000	8,903,000 (Com: 4,464,000) (Own: 4,464,000)	34%	274,680 (6.2%)	x	x	x	x	60%
3,793,266	7,220,063 (Com: 4,114,457) (Own: 3,099,457)	34%	632,605 15.4%	x	✓	x	x	71%
8,399,266	**16,141,914 (Com: 8,578,457) (Own: 7,563,457)**							
4,246,737	4,246,737 (Com)	50%	Unknown	x	✓	x	✓	80%
10,634,771	20,164,418 (Com)	35%	1,955,839 (9.7%)	✓	✓	x	✓	78%

** Foreign company. *** ✓: Yes; x: No; ✣: Yes and 75% from grant. **n.a.**: Not Available.

Annex 7 Export Promotion Programmes of Other Donors

Australia

Australia's mixed-credit programme (Development Import Finance Scheme) was discontinued in the mid-1990s. Australia is a strong supporter of untying aid because this promotes value for money. Australia's aid is fully untied. It has not only met the DAC Recommendation on Untying, but also commitments made in Accra and Busan to "untie aid to the maximum extent". Australia is well ahead of many other donors. However, despite tenders being open and untied, a large share of untied aid covered by the 2008 untying recommendation is still sourced from Australian suppliers. In 2011, 62% of AusAID's untied aid contracts were awarded to Australian companies, accounting for 85% of the monetary value of those contracts (OECD, 2013).

Belgium

At the request of eligible recipient countries, Belgium may in certain cases grant aid loans, either in the form of mixed credits or as super-subsidies. In the latter case, Finexpo (an advisory committee responsible to the Minister for Foreign Trade) guarantees low interest rates on export credits for capital goods. The terms for government aid loans are in compliance with the Arrangement on Guidelines for Officially Supported Export Credits. The aid is usually in tied form, though untied aid may sometimes be granted. The Treasury (for government-to-government loans) and the Ministry for Foreign Trade (for super-subsidies) are responsible for the budget management of these tools for financing foreign trade. The Royal Decree of 30 May 1997 established a *Comité de soutien financier aux exportations*, referred to as FINEXPO. ODA-loans are occasionally combined with commercial export credits, normally at the initiative of a recipient country, which also identifies the projects to be supported (OECD, 2008).

The Federal Public Service (FPS) Finance manages a small ODA loan programme of US$ 38 million and the "financial export support" division of the FPS Foreign Affairs provides ODA interest subsidies for two purposes: to promote Belgian exports, and to develop partner countries. However, for these funds to qualify as ODA, the developmental motive must take precedence over the interests of Belgian exporters. Instead, two facts may raise some doubt on this score. Firstly, a considerable volume of debt relief relates to loans or credits originally supported through the FPS Finance scheme, which indicates that Belgium may not have paid enough attention to the reimbursement capacities of its debtors. This can also be observed in the case of other donors. Secondly, since the DAC recommendation to untie aid to these countries came into force in 2001, fewer loans have been extended to LDCs. This suggests reduced interest in these loans now that they can no longer benefit Belgian enterprises exclusively. Tied loans to non-LDC developing countries have increased, because these benefit Belgian exporters. In the OECD peer-review it was suggested that Belgium should re-think the rationale of its loan and export promotion programme, and try to better integrate it into current work to develop a strategy for private sector development in partner countries (OECD, 2010).

Canada

In general, Canada does not offer mixed credits. However, the Canada Account is used in selective cases where it is necessary to match the availability of concessional offers from other donor countries. All Canada Account support is subject to ministerial or cabinet approval on a case-by-case basis (OECD, 2008).

Canada promised to untie all of its aid by 2013. Canada's share of untied aid covered by the OECD DAC Recommendation on Untying ODA to the Least Developed Countries (LDCs) increased from 94% in 2007 to just over 99% in 2010, much higher than the DAC average of 88% for 2010. When total aid to all developing countries is taken into account, the proportion of untied aid of the total was 80% in 2010 (OECD, 2012).

Denmark

In late 1993, a programme was established to provide interest subsidies for projects of high priority in developing countries. The subsidy is funded by grants from the aid budget. The Ministry of Foreign Affairs administers the scheme and appraises projects to be financed, using criteria that in principle are equivalent to those used for all aid projects. The amount required for interest subsidy over the life of each loan is transferred from the aid budget to the commercial bank that acts as lender. The amount is calculated as the net present value at commissioning. If payment of this interest subsidy does not result in the required minimum concessionality level (35% or 50%) for the loan, an additional grant is provided.

Eksport Kredit Fonden (EKF) is an independent, state-guaranteed public agency that assists Danish exports by providing export credit insurance and financing services. Amongst other activities, it administers the CIRR Programme for Mixed Credits, established in 1997. The CIRR programme consists of interest equalisation schemes offering banks and exporters opportunities to offer export credits for medium- and long-term transactions at fixed rates.

The allocation for interest subsidy is at present DKK 300 million a year. The concessionality level is above but close to 35% for middle- and low-income countries and 50% for LDCs.

Concessionary loans are normally not used for matching purposes. Eligible recipients are creditworthy low-income (including LDCs) and lower middle-income countries (according to the World Bank classification). The credits are tied to procurement in Denmark, except for a maximum of 50% of the loan covering local or third-country procurement. Concessionary loans are normally only extended to finance contracts awarded under national competitive bidding of a minimum number of Danish companies.

Denmark's food aid and technical assistance have been fully untied since 2005 and 2008 respectively. The fact that 97% of its total aid is untied puts Denmark in the top category of OECD donors with respect to untying aid. However, there is still room for Denmark to untie the partially-tied Mixed Credit Scheme and the Business to Business Programme. Further untying was also recommended by the 2007 peer review (OECD, 2011).

France

A reform of the French aid and cooperation system was implemented in February 1998. Two areas of intervention were established and are updated yearly: a "priority zone of solidarity" (*zone de solidarité prioritaire*, ZSP) encompassing some 40 independent countries in Sub-Saharan Africa, the Indian Ocean and the Caribbean and countries without access to the international capital market, in which French ODA is essentially provided by the French Development Agency (AFD) and the Ministry of Foreign Affairs; and a "partnership zone" consisting of the emerging economies, in which ODA is essentially provided by the Ministry of Economic Affairs, Finance and Industry, through the Reserve for Emerging Economies (*Réserve pays émergents*, RPE), managed by the Direction des Relations Economiques Extérieures (DREE).

Loans to developing countries funded from the RPE are generally associated with officially guaranteed private export credits under a scheme for mixed credits established in the early 1960s. Mixed credits are extended, on a project-by-project basis. Following an inter-ministerial review by a project approval committee chaired by the DREE, loan agreements are negotiated with the recipient government. These agreements stipulate the amount and terms of aid available, as well as the respective proportions of aid funds and export credits. The official component is funded on concessional terms and covers the grant element of the overall loan. The private credit is extended on the OECD Arrangement terms. The funds involved are tied to procurement in France but can, in certain cases, be partly used to finance local costs (OECD, 2008).

In response to requests by some recipient countries, France may combine budget funds and market resources in a single loan package. Criteria and procedures for appraising projects and taking decisions are the same as for mixed credits. The DREE is responsible for negotiating the credit with the recipient country. These loans are tied to the procurement of goods in France, in the same way as the mixed credit.

The AFD provides concessional loans to the ZSP countries, which are funded from the official development aid budget, on OECD Arrangement terms. The AFD also co-finances development aid projects in association with various international financial institutions. According to the latest OECD peer review, France has fulfilled its commitments for untying aid given at Accra: 95% of French ODA was untied in 2010, compared with 85% in 2008. It ranks above the DAC average in this respect. In 2009 and 2010, almost 100% of French ODA to LDCs and HIPCs was untied (OECD, 2013).

Germany

Within the framework of the development policy of the Federal Republic of Germany, KfW implements the part of the aid programme that concerns bilateral financial cooperation. KfW's activities in respect of financial cooperation are mainly financed from budget funds provided by the Federal Ministry for Economic Cooperation and Development (BMZ). KfW also provides financing by mixing its own funds with financial cooperation funds.

In addition to the funds available for development cooperation in the federal budget, resources from the Federal Ministry of Economic Cooperation and Development (BMZ) budget can be associated with the Development Bank's (KfW) own funds (for which an ECA cover is required). The financial packages are being extended as single concessional loans. The volume of loan commitments for mixed financing operations fluctuates from year to year depending on opportunities and requirements. There are no special extra funds for this type of financing. Since May 1994 a financing instrument, the composite financial cooperation loan, has been available to developing countries. This credit facility combines federal grant funds for financial cooperation with KfW capital market loans. The portion refinanced with KfW capital market funds is usually guaranteed by a special guarantee facility of the Federal Republic. Single loans are offered, providing that at least the minimum grant element required for recognition as official development assistance (ODA) is met. This facility is intended to supplement the existing financing instrument. It is governed by development policy guidelines and principles. Instead of an ECA guarantee, there is a guarantee from a guarantee facility created especially for market funds. The ECA premium is replaced by a guarantee mark-up on the interest rate on the loan.

Selection criteria and appraisal procedures for mixed financing and composite financial cooperation loan operations are the same as for projects entirely funded from the BMZ budget. Projects are identified in intergovernmental agreements, appraised by the KfW against development criteria and approved by the BMZ.

Mixed financing operations concentrating on economic infrastructure projects in middle-income developing countries are normally untied. Therefore, mixed financing is only possible if this conforms with the OECD Arrangement. The composite financial co-operation loan, however, is available both untied, and – in exceptional cases, as far as possible under the OECD Arrangement – tied to supplies from Germany. Because of the OECD Arrangement, tied loans are possible only for so-called "non-commercially viable" projects in countries which are not LDCs.

In 2008, Germany reported that 77% of its bilateral ODA was untied; the remainder was reported as tied. In that same year, 41% of German technical cooperation aid was reported as untied. Germany was below the DAC average for untied aid at that time, especially in respect of technical cooperation. To meet its commitments under the Accra Agenda for Action, Germany planned to untie more aid. Almost all Germany's financial and food aid was entirely untied in 2008 (OECD, 2010). In 2013 80% of Germany's bilateral aid was untied.

Italy

Aid loans can be associated with export credits if a project requires additional finance or, occasionally, in support of Italian exporters in situations where funding offers of other donors have to be matched. Each year, part (up to a maximum of 25%) of the funds available for aid credits can be allocated for mixed credits.

With a few exceptions, only developing countries with a per capita gross national product of US$ 2500 or less are eligible for this kind of mixed credit. Projects proposed for associated financing are screened by the Directorate General for Development Cooperation. If the development criteria are satisfied and the soft loan component is approved by the relevant bodies (Steering Committee and Inter-ministerial Committee), the request is passed on to the Ministry of Treasury for the necessary authorisation. Associated financing is tied to procurement in Italy, except for some local-cost financing for projects in poor countries.

Italy has made progress in untying its overall bilateral ODA in line with the OECD untying recommendation, reaching a level of 94% of aid untied in 2012. It reports that it is engaged in increasing the component of locally produced goods and services. However, the jump in untied shares between 2010 (73% untied aid) and 2012 (94%) is largely attributable to debt relief, mostly for the Democratic Republic of the Congo (OECD, 2014). In 2013 Italy reported 87.5% of its ODA as being untied.

Japan

JBIC (Overseas Economic Cooperation Department) cooperates with commercial banks to extend concessional aid loans to developing countries. The terms are in accordance with the OECD Arrangement (OECD, 2008).

Japan reports that its ODA covered by the DAC Recommendation on Untying ODA is fully untied. However, in terms of its total bilateral ODA (excluding administrative and in-donor refugee costs), the share of untied aid in 2012 was 71%, below the DAC average of 79%. This reflects a steady fall in Japan's untying ratio since the highest level of 84% in 2008 (OECD, 2014).

Portugal

The Ministry of Finance has been supporting developing countries with mixed credits, in the form of interest subsidy on commercial bank credits, and by providing soft loans. The aid finance system is currently under review (OECD, 2008).

In 2008, Portugal reported that 91% of its bilateral ODA was untied, and for LDCs specifically it reported 95% of its ODA as untied. These figures are susceptible to decreases because of planned increases in the use of tied loans and the approach to reporting the tying status. Portugal has signed a series of lines of credit which are tied. Most are for middle income countries, but some have also been signed with LDCs such as Angola, Mozambique and Sao Tome and Principe. Use of tied loans to LDCs, in particular, runs counter to the 2001 DAC Recommendation on Untying. Furthermore, even though Portugal's technical cooperation is generally reported as untied, most of it is provided in kind (i.e. projects delivered by

Portuguese civil servants with sector-specific expertise, imputed student costs and scholarships). These activities are usually not open to tender, which means they are essentially tied (OECD, 2010).

United Kingdom

The UK's Aid and Trade Provision scheme, which had provided mixed credit funding, was closed in 1997 because it was considered that it did not have sufficient focus on poverty elimination. This did not preclude deploying development assistance from the bilateral aid programme of DfID in association with private finance, including in the form of mixed credits. Any mixed credits are managed within agreed country programmes and are subject to agreed strategy and focus sectors for each country and the same quality control procedures as all other aid projects (OECD, 2008).

The UK reports its ODA as 100% untied, and has committed itself to keeping aid separate from commercial interests. However, the UK reports that over 90% of centrally managed contracts – which represent the vast majority of the contract value – go to UK suppliers. This was regarded a concern in the recent DAC peer review because of the potential implications it has for value for money (OECD, 2014).

United States of America

The Export-Import Bank, chartered in 1934 as an independent government agency, facilitates US exports by providing short- and medium-term insurance and medium- and long-term loans and guarantees. The guarantee and insurance coverage offered by Eximbank are designed to protect exporters against political and commercial risks. Eximbank is authorised to use the "War Chest" to match tied aid credits extended by other governments in violation of the OECD Arrangement on tied aid, and also in cases in which Eximbank determines (in conjunction with the Treasury and other US government agencies) that US trade, policy or economic interests justify the matching of tied aid credits extended in compliance with the OECD Arrangement. Furthermore, it provides Eximbank with the authority to use tied aid credits to respond to situations in which other foreign governments attempt to gain a competitive advantage in foreign markets without formally violating the OECD Arrangement's tied aid rules. The War Chest provides grant resources which may be combined with direct loans or guarantees to generate a tied aid credit. Eximbank can also combine resources with US Trade and Development Agency (USTDA) and US Aid for International Development (USAID) to offer a tied aid credit.

The Eximbank and the Secretary of the Treasury can also provide tied aid credits in order to leverage multilateral negotiations to restrict the scope for aid-financed trade distortions through new multilateral rules and to police existing rules. It can be used to counter foreign tied-aid credit confronted by a US exporter when bidding for a capital project, or to enable a competitive US exporter to pursue further market opportunities on commercial terms. The use of the tied aid credits should be in accordance with the OECD Arrangement unless a breach of the Arrangement has been committed by a foreign export credit agency. The tied aid credits may be used to pre-emptively counter potential tied-aid offers without triggering tied aid use.

USAID and Eximbank can also provide a mixed credit to support developmentally sound capital projects in selected middle-income countries that cannot attract or support commercial financing. This financial vehicle consists of a grant component, provided by USAID, and standard export credits provided by Eximbank. The programme requires coordination by USAID, Eximbank, Treasury and the host country or the recipient that agrees to implement the project and repay the debt. USAID is able to offer the grant portion of a mixed credit in combination with an Eximbank standard export credit. USTDA, in addition to its authority under the Tied Aid Credit Programme, can also offer the grant portion of a mixed credit under its general remit.

Exporters facing foreign tied aid competition for specific transactions can approach Eximbank about their eligibility for a matching tied aid credit. Eximbank will consider such applications on a case-by-case basis. Before a foreign tied-aid matching offer is made, the Treasury Department (in coordination with Eximbank) determines whether the project is eligible for tied aid under the OECD Arrangement. If the project appears ineligible for tied aid, Treasury will "challenge" the project under the tied aid disciplines of the OECD Arrangement in order to have it formally declared ineligible for tied aid.

Eximbank will automatically offer matching financing when tied aid is offered for a project declared ineligible, regardless of whether the tied aid is offered through formal derogation procedures or as a direct violation of the OECD Arrangement. If the project is eligible for tied aid, Eximbank will evaluate the matching request against tied aid principles. A variety of packages have resulted from the War Chest, including credit lines and individual concessional packages. The packages must conform with the OECD Arrangement (OECD, 2008).

From a low starting point, the US has made considerable progress in implementing the 2001/2008 DAC Recommendation to untie aid: from 47% being tied in 2005 to only 15% in 2009. Overall however – when all forms of aid and all developing countries are considered – the US still ties almost a third (32%) of its aid to the delivery of US goods and services, the sixth highest share in the DAC (OECD, 2011). In 2013 73% of US aid was reported to be untied.

Annex 8 Case Studies

8.1 Public Transport: Buses for Ghana

Introduction and Methodology

This section reports the results of the evaluation of the delivery of 500 city and commuter buses to Ghana and technical and management support of the newly created public bus company, Metro Mass Transit (MMT). The case study concerns four related and follow-up ORET transactions, i.e. GH00020, GH00029, GH00039 and GH/ID070056, covering 500 buses during the period 2005-2010. The Dutch company VDL was the applicant and responsible for the delivery of chassis, bodies, spare parts and technical support. Technical assistance was part of all four transactions. This included the involvement of the city of Amsterdam which seconded two managers of its public transport company (GVB) to function as managing director of MMT in the period 2005-2010.

The four transactions have the same five objectives: 1. Improve public transport in Ghana, notably in the major cities, in terms of efficiency and reliability (by adding better-quality buses to the fleet and replacing unreliable and unsafe buses); 2. Create a sustainable public transport company MMT (through technical and management support); 3. Reduce the congestion in major urban areas such as Accra and Kumasi (by providing an alternative for the minibuses (*trotros*) and taxis; 4. Save on fuel; and 5. Reduce emissions (through cleaner engines). Combined, the transactions aimed to enhance sustainable mobility of citizens in Ghana and contribute to socio-economic development and poverty reduction.

Twenty-five buses from the first consignment were allocated to another state bus company (STC), the remaining 475 VDL buses were added to the MMT fleet, sometimes replacing older buses. About half of the buses are now used in the country's two largest metropolitan regions: Accra and Kumasi. In the case of Accra, buses are stationed in neighbouring towns such as Tema, Winneba and Swedru. Other buses operate from stations in smaller or more remote towns such as Tamale, Takoradi, Sunyani, Cape Coast and Bolgatanga. Most MMT buses do not operate a scheduled bus service but instead, like minibuses, only leave the terminal when sufficient passengers are on board. As the 475 buses form only half of the fleet of MMT it was difficult to allocate the benefits of the transactions to the end users (passengers).

The evaluation is based on: i. Relevant documents from the ORET archives, the Dutch embassy in Ghana and the Division of the Ministry of Foreign Affairs, MMT and other stakeholders in Ghana; ii. Various academic papers on the development of public transport in Ghana; iii. Interviews with stakeholders in the Netherlands and Ghana in April, May and June 2014; iv. Site visits to various locations in Ghana (Accra and Kumasi) in April and June 2014; and v. A survey of passengers of six bus lines across Ghana carried out in July 2014.

The impact of the intervention was assessed qualitatively and quantitatively, reconstructing a counterfactual, a study of all relevant documentation, measuring the results of the

transactions by surveying beneficiaries, carrying out in-depth interviews with stakeholders, and assessing MMT's performance. The aim of the survey was to identify major user groups of MMT buses, to quantify the economic, social and environmental impacts of their use of the buses and to extrapolate those impacts to national level. Following a pilot done in June 2014, six bus lines were selected from the three types of MMT bus lines (city, rural-urban, intercity) and by balancing bus lines centred on coastal regions with lines connecting the Northern and Southern regions. These lines serve different user groups such as market traders (mostly women), market visitors, business people, schoolchildren and visitors to health facilities. During the survey, which was done in July 2014, passengers were asked to provide information about the starting point and destination of their journey, employment status, age, purpose of the trip, frequency of use, availability of alternative transport and perceived advantages and disadvantages of the MMT bus compared to other available modes of transport.

The Client

The client was Metro Mass Transit (MMT), a company that provides public transport services in all regions of Ghana. Founded in 2003 to replace the bankrupt Omnibus Service Authority (OSA), its shares are owned by the government (45%) and a number of "state and private investors". Except for Prudential Bank Ltd, the private investors are also largely owned and/or controlled by the Government. As a result, MMT has a high level of government involvement, directly and indirectly.

Financing of the ORET Transactions

The four transactions add up to a total amount of EUR 73.6 million with EUR 27.6 million covered by ORET grants. The first two transactions had a grant share of 35%, whereas the last two transactions had a grant share of 39% to cover the additional costs of longer-term technical assistance after introduction of that facility within ORET (see Table A – 4). The required non-grant funds were financed by export credits (commercial loans) from ING Bank to the Government of Ghana (with the Ministry of Transport as responsible line department and the Ministry of Finance as contract party).

Table A – 4 Key Data on the Bus Transactions in Ghana

Transaction	Buses	Delivered in	Completed	Transaction amount (in EUR)	ORET Grant (in EUR)	Grant %	One-off finance costs as % of non-grant funds
GH00020	100	2005-2006	2008	12,766,085	4,468,130	35.00%	11.5%
GH00029	100	2006	2007	14,693,000	5,142,550	35.00%	8.8%
GH00039	150	2007-2008	2011	23,150,000	8,948,781	38.66%	10.8%
GH/ID07056	150	2009-2010	2014	22,982,186	9,042,312	39.34%	10.4%
Total	**500**			**73,591,211**	**27,601,773**	**37.51%**	**10.5%**

Efficiency

Application. The appraisal stage (which started with one transaction that evolved gradually into a project with four transactions) took somewhat longer than the average ORET transaction, but for good reasons. Initially FMO rejected the application because it was unclear which organisation would operate the buses. The originally intended client, the Ghana Private Road Transport Union of private commercial transport operators, would have created an unstable institutional setting. In December 2002 a renewed application was received for 250 buses for the newly created MMT; it was split into two transactions to manage the risks. It included the appointment of a managing director and a technical manager from the Netherlands to secure professional management in the start-up stage of the new bus operator. A price/quality check was done during the appraisal stage. Starting with the second transaction, the remaining 400 buses were assembled at the Neoplan factory in Kumasi using imported chassis, bodies and parts, thereby providing additional local employment. With an estimated net price per bus of EUR 135,000 (excluding costs of transportation), the price of a VDL bus manufactured at Neoplan was comparable to the prices of imported buses of competing European suppliers. In comparison with Asian competitors, VDL offered higher quality buses that were more suitable for Ghanaian roads for a higher price. This was reflected in the higher purchase price, which included the delivery of spare parts.

Implementation. In general, the implementation of the four transactions went smoothly, apart from recurrent problems with customs clearance and securing exemption of duties on imported equipment. In total 500 buses were delivered to Ghana: 25 buses from the first batch to STC and the remaining 475 buses to MMT. In March 2013, 452 buses of the ORET programme (VDL Neoplan) were still owned by MMT, of which 327 were in service; 125 buses were no longer operational, either because they required repairs or because they were about to be scrapped, resulting in an operational percentage of 66.7% for VDL-ORET buses. These buses accounted for 41% of the operational fleet, 45% of the routes, 38% of the passengers carried and 45% of MMT's annual mileage. The first managing director and his technical manager had to build up the bus company from scratch. Data show a rapid increase of passengers in the period 2003-2006. From a maximum of 55 million transported in 2006, the number gradually declined to under 30 million in 2009, mainly due to the shift from city to intercity and urban-rural transport (lower frequencies, longer distances, fewer passengers but higher net revenues). Since then passenger numbers have remained stable at between 30 and 40 million per year.

Effectiveness including Impact

MMT's bus operations have had substantial positive longer-term economic, social and environmental effects on Ghana. The key longer-term effect not attained, however, is mitigating rising congestion in Ghana's major cities, which may have been an unrealistic goal from the outset. This challenge was further complicated by the difficult political environment in which MMT had to operate. The Government created MMT with a view to it playing a major role in passenger transport in Accra. This met with intensive resistance from *trotro* owners, who considered the government support of MMT as unfair competition. The grant agreement between FMO / ORET.nl and the Ghanaian government included the

condition that separate bus lanes should be constructed in order to avoid the buses being held up in traffic. To date, these bus lanes have not been realised. Although the construction of separate bus lanes was included in the public transport master plan for Accra, this stipulation in the agreement was not realistic because it went far beyond the leverage of the ORET transaction.

The reason the ORET transactions did not result in the expected number of passengers was MMT shifting from city to rural-urban and intercity bus lines around 2007. This shift to bus services other than city was forced upon MMT in the face of unsustainable financial shortfalls generated by loss-making city lines and strong pressure from the powerful unions of *trotro* drivers on MMT to leave the cities. Although city lines generated high passenger totals, it was the rural-urban and intercity lines that were bringing in most of the gross revenues. VDL buses also had a much greater capacity for luggage than other buses in the fleet. Luggage transport has become a significant source of income for MMT - especially since the buses were redesigned for that purpose, allowing market women to transport their goods at an affordable price. This cross-subsidisation assisted MMT to remain financially viable while still enabling it to run city bus services, though at a reduced scale.

Direct employment at MMT gradually increased to a total of 4500 in 2013. Despite declining passenger numbers after 2009, staff numbers rose until 2012 and only decreased slightly in 2013. Given the 40% share of VDL-ORET buses in the MMT fleet and revenues their contribution to employment was estimated at 1810 jobs in 2013, which is less than the 2612 jobs for 475 buses foreseen. MMT's management has made a conscious effort to hire more women, including for functions traditionally not held by women in Ghana, such as drivers. Jobs created by MMT are dispersed throughout Ghana, partly as a result of the shift away from city transport. The evaluation estimates that MMT's bus operations created about 1000 more jobs than they displaced from competing *trotro* drivers. In addition to direct employment at MMT, the ORET transactions also contributed to new employment at the Neoplan site: an estimated 200 temporary jobs for a six-year period. Thereafter the majority of jobs disappeared again due to a lack of new orders even though the Government of Ghana remains the majority shareholder of both MMT and Neoplan. Some knowledge transfer to the workers who Neoplan dismissed, has spilled over to a neighbouring area with workshops for metal engineering and vehicle repairs.

The estimated financial gain to the passengers using the six MMT bus lines studied add up to EUR 0.5 million per year in wage income and EUR 4.5 million in market sales. On all 6 lines except the Tamale-Damongo intercity line in North Ghana, market earnings facilitated by MMT services were far larger than wage earnings. In Ghana as a whole, MMT bus services are estimated to facilitate about EUR 28.4 million in annual earnings from wage income and an additional EUR 123 million from market sales by bus passengers. Besides this economic impact, various positive social and gender impacts can be attributed to MMT's services. MMT has created opportunities for market women to earn an income and provided access to jobs previously not held by women in Ghana. Qualitative evidence from the interviews supports the claim that MMT offers a bus service with better road safety than the alternative minibuses and in addition, for women, a ride free from the risk of sexual harassment.

MMT offers this relatively safe and reliable transport in all regions of Ghana at prices consistently and often substantially below alternative transport modes. MMT's main customers are Ghanaians with low income though not below the poverty line. Schoolchildren are another group that benefits, often free of charge. In some remote regions the MMT bus is the only means for children to travel to school, thereby making the difference between being able or unable to get an education. The cheaper fares of MMT result in considerable cost savings for passengers. Field research reveals that in 2014 the price differential between MMT and the next alternative (i.e. mini-buses) was between 30% and 53%, with even larger differences in the rainy season or during festivals, when minibus operators raise their prices. Extrapolating estimated cost savings from the six bus lines to the national level, it is estimated that MMT bus services save their passengers close to EUR 9 million in transport costs per year. It can therefore be concluded that the goal of offering an affordable transport option to the people of Ghana, especially the poorer segments, has largely been achieved.

MMT buses are significantly more fuel-efficient than alternative transport modes. On the six bus lines, fuel savings are estimated at 8.5 million litres of diesel per year, worth about EUR 6.8 million against the 2014 diesel price in Ghana. The CO_2 emissions saved per year as a result of MMT's bus operations amounted to almost 23,000 metric tons per year. Tentative extrapolations of these estimates to the national scale suggest fuel savings worth about EUR 50 million per year from all MMT's bus operations and CO_2 emission savings close to 170,000 metric tons (1.87% of national emissions).

While the impacts discussed above refer to MMT as a whole, they can to a large extent be attributed to the four ORET transactions. Both the delivery of 475 buses and the technical assistance played a key role in the creation of MMT, which might not have come into existence without the project. The positive financial end result depended crucially on revenues generated by the buses supported by ORET and the Belgian government, which could access the less accessible regions of Ghana much better.

Sustainability

Financial. The shift from city to intercity transport was a financial necessity but also a blessing in disguise for MMT which could otherwise have succumbed to its chronic revenue shortfalls. MMT has now been able to regain financial stability. The original set-up of a financially stable city bus company may have been unrealistic from the outset because even under more favourable circumstances, city bus transport tends to be less profitable than regional or intercity bus transport. Hence the ORET transactions have helped MMT to become a viable public transport company. In recent years MMT has even been able to buy some new Tata buses from retained profits, albeit a fraction of the total investments required and arguably a suboptimal choice in terms of technical sustainability. MMT does have concrete intentions to purchase a small number of VDL buses, to be financed from retained profits.

Technical. Though accounting for only a small part of the budget for each transaction (up to 4%), Dutch management and technical support have been crucial for the development of MMT. They have resulted in a transfer of knowledge and business practices that are still

being implemented or built upon. It has even been suggested that without the technical manager MMT would have failed to maintain its buses properly. Benefiting from these policies, the current managing director and his Ghanaian predecessor have succeeded in keeping the buses reasonably well maintained. Of the total of 475 VDL/DAF buses supplied under ORET to MMT, 327 were still in service in March 2013. Many stakeholders attested to the robustness and durability of the VDL buses that have sustained MMT operations. Though the 25 buses sent to STC wore out in four years due to lack of maintenance, they were used almost non-stop and clocked up over a million kilometres. Skills and knowledge transfer for continuous in-house maintenance by MMT have, however, not been developed adequately as MMT still subcontracts some maintenance services. MMT's current lack of qualified staff in technical and engineering functions could affect the future use of buses.

Institutional. The Ghanaian successors were assisted by the Dutch technical manager who remained in charge of maintenance after his ORET-funded contract ended (in 2012). The policy of recruiting young "high potentials" to the administrative staff has not been sustained, with the hiring of management staff increasingly being influenced again by political appointments. The current management of MMT has launched a five-year strategic plan that holds much promise for institutional sustainability if implemented successfully. In view of its political and financial ties, MMT can never operate as private bus operator. It remains dependent on financial contributions from the government for investment and is still influenced by other politically motivated interventions, such as the way the rapid bus transport corridors in Accra and Kumasi are being developed, or the expected provision of social services. Being exempted from paying profit tax is seen as a form of compensation for MMT's provision of these "social" services. This implies that MMT is more or less forced to continue to operate less profitable routes, to provide free bus services for schoolchildren again (now officially abolished), to operate rural routes on bad roads, etc. Most of these are public services that offer good returns from a development perspective.

Relevance

The improvement of public transport has been a key priority of the Ghanaian government since the outset of the project, and this has been reflected in various other transport initiatives. The role of MMT in urban-rural transport remains critical as the provider of affordable and safe public transport. There is no doubt that ORET transactions have facilitated this role, notably by designing Africa-tailored buses that are able to cope with the most challenging road conditions.

The relevance of the ORET transactions for developing mass urban transit and reducing congestion in cities has been much more limited, primarily because the government has not taken adequate measures to prevent the growth of *trotros* and to stimulate the use of mass transit systems. In a sense there was an overreach of the perceived leverage of the project. The political environment in which MMT had to operate was underestimated, whereas the commitment of the Ghanaian government to assist the development of MMT was overestimated. In practice, MMT's role in city transport turned out to be a difficult proposition. Most bus terminals and other infrastructure of its predecessor OSA in Accra and Kumasi had been taken over by minibus operators and in many cases never returned to

MMT. This resulted in a lack of bus stops and access to terminals in areas with high customer demand. Government plans for creating dedicated bus lanes or even a fully developed Bus Rapid Transit (BRT) system for Accra have not been carried out to date, except for one BRT corridor in Accra. Without dedicated bus lanes or other measures that enable buses to avoid traffic jams, large buses have limited added value in densely built-up urban areas, because they are held up with the rest of the traffic. Arguably, the implementation of BRTs and the role of MMT in this were never very realistic from the outset, in view of the very high infrastructure cost, and VDL buses are not very suitable for a BRT system. MMT was more or less forced out of urban transport into intercity and rural-urban transport by politically better connected actors. Though not a deliberate policy, it became an unintended positive consequence, including from a development perspective.

Additionality

The additionality of the project is positive: without the grant from the Dutch government, Ghana would have been unable to purchase buses of the same quality as VDL. Instead, MMT could have bought inferior buses from Tata or Yaxing which have been shown to have a shorter lifespan. These buses do not generate employment in local assembly and consume more fuel (resulting in lower net revenue for MMT). Cash-strapped bus operators in developing countries, however, tend to favour these upfront low-cost alternatives rather than considering the total cost of running the bus service. The ORET transactions also generated a substantial number of jobs (mostly temporary) at Neoplan. More importantly, in contrast to the Belgian export development programme that only co-financed the delivery of the VDL Jonckheere buses fully assembled in Belgium, it provided a transfer of technical know-how.

Coherence

The ORET bus project is to some extent coherent with another project implemented in Ghana: the World Bank Urban Passenger Transport (UPT) project. That project enabled the rehabilitation of roads throughout Ghana, literally paving the way for MMT's buses and the regulation of the transport markets in Ghana.

The ORET grant contributed to VDL's ability to deliver buses to a market considered less accessible to Dutch export products. Previous experience with Neoplan and in delivery of buses to Ethiopia through an earlier ORET transaction gave VDL a level of familiarity with the Ghanaian context, in relation to the institutional and technical challenges of delivering buses capable of operating under far more difficult conditions than in developed countries. Feedback from MMT and staff at Neoplan about the performance of the ORET buses in Ghana allowed VDL and Neoplan to further adjust bus specifications to local conditions. As a result, Neoplan was able to construct buses better adapted to Ghanaian and sub-Saharan African conditions than buses assembled in the Netherlands; a spin-off was that later a bus company in Burkina-Faso put in a commercial order for these buses.

In all four ORET transactions, the export credits from ING were insured (ECI) by Atradius DSB against the risk of non-payment, with the finance cost consisting of the bank fees for the commercial loans and the insurance premiums co-financed from the grants.

8.2 Drinking Water Transactions in Ghana

Introduction and Methodology

This section presents the results of the evaluations of three case studies consisting of five ORET supported transactions in the water sector in Ghana: 1) Kwanyaku Water Supply System (GH00028 and GH00145) and Kasoa Interconnection Project (GH/WM07094); 2) Barakese Water Supply Project (GH00137); 3) Tamale Water Supply Project (GH00124). The five transactions share the same objective, namely to improve access to potable drinking water for the population in the relevant regions with a view to improving their health situation and living standards, including saving time for women. In combination, this should offer better income and employment and opportunities for private sector development, at the same time resulting in less environmental stress.

The focus of the projects was on construction and rehabilitation of water treatment plants, distribution pipes and standpipes. Therefore the evaluation concentrated on water production and distribution and water quality at the points of sales rather than also evaluating health outcomes at the end-user level. The evaluations were conducted on the basis of desk research (of ORET archives and additional reports provided by the Ghana Water Company (GWCL) and staff of the water treatment plants), semi-structured interviews (with institutions and contractors), focus group discussions (with staff groups), and interviews (of water vendors and end users of water).

In addition, a survey of operators of standpipes was conducted in the Kwanyaku catchment area. It was designed on the basis of qualitative work to investigate the water vending at the standpipes constructed in the Kwanyaku area. To compare ORET standpipes, all public water sources available to the population were inventoried in July 2014, revealing a total of 336 water sources in 35 small towns and villages in the area. Most water sources are privately owned and operated, while the standpipes of the ORET-supported project have a mixed public/private operational system of management by public water committees and operation by private operators. Using the census data as a sample frame, 156 standpipes were randomly selected: 47% were ORET project standpipes and 53% were owned by private water vendors. The sample included all working ORET standpipes, as 35% of ORET standpipes turned out not to be in operation anymore. Owners and operators of the 156 standpipes were surveyed by means of a structured questionnaire on financial and institutional aspects of the private and public water market. In addition, in August 2014 water quality was tested for pH, colour, turbidity, conductivity, temperature, residual chlorine and *E. coli*.

The Kwanyaku Project

Kwanyaku I (GH00028) and Kwanyaku II (GH00145) were two related projects. Activities started in 2003 and 2006 respectively and were completed in 2010 and 2011 respectively. Kwanyaku I built a water purification system and pumping stations and expanded the existing distribution network in the catchment area. Kwanyaku II extended the network to Senya Bereku. The Kasoa Interconnection Project (GH/WMO7094) (Kwanyaku III) complemented the other two projects. It started in 2008/9 and was finished in 2013. This project installed a transmission and distribution network and constructed a 500m³ water reservoir, small-scale

public sanitation facilities and standpipes, to improve the water supply in communities in the Kwanyaku catchment area. Across various communities a total of 122 public standpipes was constructed to supply the population with piped water.

The Barakese Project

The Barakese project (GH00137) rehabilitated the existing Barakese water treatment plant that together with the Owabi water treatment plant supplies drinking water to Kumasi, the capital of the Ashanti Region. Two new production modules were constructed with a production capacity of 27,300 m^3/day each. A new booster station with a 2500 m^3 reservoir along the transmission line and a new reservoir in Suame were installed to guarantee better water supply in times of power cuts and plant breakdowns. The existing distribution system, mainly the transmission mains between the water treatment plant and sub-networks, was rehabilitated and extended. To monitor the system, 60 zonal meters were installed. The original contract given to Taylor Woodrow included only one new module, but a second one was added when the second transaction was approved in 2010. The second transaction was added to the existing transaction. The beneficiaries of the Barakese water installation are the inhabitants in and around Kumasi: an estimated 2.1 million people. The objective was for the inhabitants of this metropolitan area to gain better coverage, a higher supply rate and additional access to potable drinking water.

The Tamale Project

The Tamale project rehabilitated the existing water plant (20,000m^3/day) near Tamale and constructed a new plant with a daily production capacity of 25,000m^3 located next to the existing plant. Raw water is extracted from the White Volta River, treated at the plant and then piped to Tamale through a 25 km distribution pipeline. In addition, a new reservoir, a new transmission station and distribution pipelines were constructed. The new transmission pipeline conveys water directly to town, whereas the old pipeline distributed water to the villages along the way, which resulted in extreme water pressure losses. The existing transmission pipeline supplying the corridor villages was also rehabilitated and water meters were installed. The aim was for the Tamale metropolitan area and the region around the capital of the Northern Region to gain better access to water by increasing the number of household connections and the supply rate. The project did not include end-user level interventions such as standpipe construction. Technical assistance focused on technical and institutional strengthening of the plant and the regional office of GWCL.

The Client

The main client of all transactions was Ghana Water Company Ltd. (GWCL), a 100% state-owned limited liability company. Investment in water infrastructure is not financed from its investment budget, however, but directly by the Ministry of Finance (MoF) as part of the government policy to keep water prices low. The tariff structure for water sales is supposed to cover only the costs of operation and maintenance (staff, operation of treatment plants and distribution systems, spare parts, chemicals, etc.). To augment the investment cost funded by the government, other investment funding was sought from donors. As a result GWCL already had extensive experience with ORET: treatment plants at Sekondi-Takoradi, Weija, Tamale, Cape Coast, Kwanyaku and Baifikrom have been constructed, rehabilitated or extended with funding from ORET grants and commercial financing guaranteed and serviced by the MoF.

The organisation of GWCL is centralised, with the head office in Accra. Regional offices manage the urban areas of the ten regions of the country but have to report monthly figures on production, cost and demand for chemicals to the head office. Monthly budgets are allocated to the regions; management of spare parts is also centralised via the main depot in Tema, east of Accra. Allocation of responsibilities within GWCL is not very transparent. Administrative processes are slow and bureaucratic, with hierarchy and lack of decentralised responsibilities hindering rapid responses to operational issues in the field. The financial statements of GWCL show a cumulative deficit built up over the years, with small profits only in 2010 and 2013. The total deficit at the end of 2013 was GHS 331.6 million (about EUR 80 million). Revenues from water sales are not sufficient to cover total expenditure on the production and distribution of water and to service foreign loans, while the increasing prices of imported inputs have contributed significantly to the increasing deficit.

Financing of the Transactions

The total sum of ORET grants for these transactions was EUR 60.3 million out of a total transaction amount of EUR 122.9 million. In the Kwanyaku projects the weighted average grant share was 42% compared with 53% for the Tamale and Barakese transactions.
The financing structure of each water transaction is summarised in Table A – 5. ORET was attractive to Ghana for co-financing transactions in its drinking water sector because of the given shortfall between the available and required funding and also the larger grant element of ORET after introduction of the Water Facility. The non-grant funds in the form of insured export credit loans, however, came at a relatively high price: the one-off financing costs (bank fees and the insurance premiums of Atradius not counting interest and amortisation) from 15.0% to 20.2% of the non-grant funds, and for all five water transactions the weighted average was 17.7%. In the case of the Kwanyaku I transaction (GH00028), part (36%) of the export credits that financed content of less than 50% Dutch origin, Atradius DSB re-insured with the Belgian state insurance agency Delcredere, because the applicant company Denys was registered both in the Netherlands and in Belgium and Atradius DSB had reached its maximum exposure on Ghana at the time.

Table A – 5 One-off Finance Costs for the Drinking Water Transactions in Ghana

Title / ORET Code	Company / Dutch Bank	Definitive Grant / Grant Share	Transaction Amount / Non-Grant funds	Risk Premiums[1] / Credit Risk Premium Atradius	% of Transaction Amount / % of Non-Grant	Administrative Costs Atradius	Country / Client / Risk Class[2]	Guaranty Premiums[3]	Drawing Period[4] / Credit Period[5] (Months)	Other Credit Insurance Costs[6] (% non-grant)	Total Insurance Premiums / Bank Fees	Total One-off Finance Costs[7] / % of Non-Grant Finance
Kwanyaku I **GH00028**	Denys ABN	EUR 8,447,000 35%	EUR 24,136,000 EUR 15,688,400	EUR 291,331 EUR 1,991,682	1.2% 12.7%	EUR 3,000 EUR 1,500	Ghana / GWCL / 6	EUR 70,116	29 120	Delcredere EUR 766,112	EUR 2,357,629 EUR 792,041	EUR 3,149,670 20.1%
Kwanyaku II **GH000145**	Denys ABN	EUR 2,086,637 51%	EUR 4,131,000 EUR 1,978,690	EUR 28,122 EUR 216,069	0.7% 10.9%	EUR 3,000 EUR 1,500	Ghana / GWCL / 6		3 120		EUR 248,691 EUR 48,358	EUR 297,049 15.0%
Kasoa **GH/WM07094**	Denys ING	EUR 6,328,773 52%	EUR 12,230,167 EUR 5,879,834	EUR 114,947 EUR 721,604	0.9% 12.3%	EUR 3,000 EUR 1,500	Ghana / GWCL / 6	EUR 21,362	20 120		EUR 862,413 EUR 327,097	EUR 1,189,510 20.2%
Barakese **GH000137**	Ballast ABN	EUR 19,733,090 53%	EUR 37,426,767 EUR 17,619,282	EUR 332,382 EUR 2,192,124	0.9% 12.4%	EUR 3,000 EUR 1,500	Ghana / GWCL / 6		24 120		EUR 2,529,006 EUR 223,994	EUR 2,753,000 15.6%
Tamale **GH000124**	Biwater ING	EUR 23,750,000 53%	EUR 44,943,934 EUR 21,193,934	EUR 442,904 EUR 2,601,031	1.0% 12.3%	EUR 3,000 EUR 1,500	Ghana / GWCL / 6	EUR 253,599	24 120		EUR 3,468,458 EUR 193,000	EUR 3,661,458 17.2%

1 The risk premiums (first amount in column 5) covers the premium for the manufacturering or construction policy (usually determined over the total transaction amount and the period required to complete the works) and the credit risk premium charged to the exporter for the risk that the ORET grant would not be disbursed.

2 The country risk classification of a recipient country is determined by the OECD Consensus and regularly updated to take account of developments. The classification of countries can vary from class 1 to 7 and is an important factor for the calculation of the minimum risk premium for the sovereign credit risk.

3 The guaranty premiums charged by Atradius cover the risks of incorrect calling by the recipient of guarantees provided by the exporter such as the downpayment to guarantee implemention and the financial guarantee for the maintenance of the works, and risk of correct or incorrect calling of guarantees of the financing bank.

4 The drawing period is defined as the period over which the grant and the loan are drawn down to finance the works or the transaction.

5 The credit period is the period for repayment of the loan where amortisation usually is done bi-annually.

6 The credit risk premium paid by Atradius DSB to the Belgian credit risk insurance company Delcredere which insured the components with less than 50% Dutch content. This amount was part of the premium (36.25%) for the credit risk of Kwanyaku I that Delcredere reinsured (minus a 10% management fee for Atradius DSB as lead insurer).

7 The total one-off finance costs consist of the sum of the total insurance costs (credit risk premiums, other risk premiums and administrative costs) and the bank fees.

Efficiency
With the exception of the Barakese transaction, the appraisal and execution of the projects went relatively smoothly, did not require more time than planned and compared well to the average ORET transaction. The water treatment plants and distribution systems were completed without significant delays, and outputs in other areas such as management and technical support were also realised as planned. In **Kwanyaku** the construction company Denys is still involved at its own expense, although technical and maintenance assistance in the ORET project ended in 2010. As a result, the plant is well monitored, though it is currently operating at only 65% of capacity. An extension of the distribution network and improvements to the transmission pipes would be necessary to increase production. Another production constraint is the frequent power cuts which halt production at the plant several times a day. The inventory located 118 of the 122 constructed ORET standpipes. It turned out that 42 of them (35%) are no longer in operation and almost half (20) were never connected to the system. Other reasons for defective ORET standpipes were breakdowns and no repair, non-payment of the water bill and therefore disconnection by GWCL, and other problems with GWCL. Despite the problems encountered, the ORET transactions increased water supply through public sources infrastructure in the area by one third.

The **Barakese** project faced quite a number of difficulties at the start. The project was originally assigned to Taylor Woodrow Construction BV (a special financial vehicle), with a Ghanese company as subcontractor (Taysec). Taylor Woodrow started the construction together with the engineering consultancy firm Royal Haskoning, which was responsible for design, supervision and training as part of the contract of the same ORET transaction. During the first year of construction Taylor Woodrow went bankrupt and the project was taken over by Ballast Nedam, which raises a question about the *due diligence* process of the first applicant. In the Grant Appraisal document it had already been noted that Taylor Woodrow was was “not very strong” and a “performance guarantee” was required to be provided by the mother company. Because the project was taken over about halfway and had not followed the methods preferred by Ballast Nedam (solid preliminary research, clear contract, etc.) modifications were considered necessary to the design and implementation. Given the late stage, this resulted in many last-minute changes and late orders. Despite these problems the project was completed on time. The **Tamale** water treatment plant was constructed on the basis of a turnkey contract and handed over in 2008. The implementation of the transaction went smoothly and this transaction was also finalised on time.

One of the main efficiency indicators for GWCL is the level and share of non-revenue water (NRW), i.e. water delivered without payments or lost in transmission due to leakages. Since 2011, GWCL has reported a decreasing trend in NRW: from 49% in 2008 to 46% in 2013. It blames physical losses (e.g. leaks from the pipes and network) for 50% of NRW, while the other 50% is assumed to be caused by “administrative” losses (e.g. illegal connections or manipulated meters). However, these estimates should be interpreted with caution, since the insufficient number of water meters in plants and major transmission pipelines makes it difficult to estimate how much water is in fact produced and reaches at certain points in the system. Meters are also often absent in private households or do not work properly, and the number of illegal connections is unknown.

The head office of GWCL reports that water quality is monitored regularly. The standard Ghanaian quality indicators for raw water (intake water from rivers at water treatment plants) are pH, colour, turbidity, alkalinity, iron, manganese, pesticide (nitrite), *E. coli*, cadmium, arsenic and chromium. The treated water quality indicators are pH, colour, turbidity, hardness, residual chlorine, total dissolved solids, sulphate, aluminium, iron, manganese, fluoride, nitrate, arsenic, nitrite and ammonia. From interviews with staff of the regional offices and by visiting the laboratories at the treatment plants we learned that the quality indicators of treated water are tested hourly as the GWCL regulation prescribes. Raw water is tested less frequently: monthly or every six months. It is advisable to do more frequent tests, particularly for heavy metals, e.g. for mercury. Surface water in Ghana (e.g. rivers) is often contaminated by the gold mining industry, in which mercury is used extensively. A key performance indicator for mercury contamination is lacking.

Effectiveness and Impact

The theory of change of the projects assumed that the transactions would contribute to the supply of potable drinking water to the population of the relevant regions, with a view to improving their economic and social living conditions and their health. The three Kwanyaku transactions increased the volume of available drinking water in the respective regions and contributed to an improvement of the living conditions of the population. Furthermore, test done during the evaluation confirm that the water from the water production plants is generally of better quality than water from alternative sources (traditional wells and ponds). The survey of operators of the ORET standpipes shows that their water not only meets the quality requirements but is also cheaper than the water provided by privately owned standpipes. Hence the ORET standpipes have benefited their users, usually the poorer segments of the population. Overall the water supply distributed through ORET standpipes increased by about one third in the **Kwanyaku** region.

At user level, the management of standpipes in the treatment group is organised differently than that of the control group. Whereas 98% of the ORET standpipes are publicly owned, i.e. by the town population represented by the Water Committee, only 10% of the standpipes in the control group are publicly owned. The public ownership system involves rules on sales, revenue collection and responsibilities of Water Committees and water vendors. Operators of the ORET standpipes were usually selected by Denys upon recommendation of the local Water Committees. To become a responsible operator a person merely had to register with GWCL to receive the bill. Private water vendors pay about GHS 900 to get a standpipe connection, of which GHS 400 is paid to GWCL for being connected to the mains pipe and GHS 500 for the construction of the tap.

In **Barakese**, the project was designed as a turnkey contract. Ballast Nedam handed over the treatment plant to GWCL in 2010, with one extra year of technical and maintenance assistance foreseen until 2011. Ballast Nedam had contracts with the Kumasi's water treatment plant before and after the ORET project. Administratively, the Barakese plant is well organised and its team is highly committed to produce water to high quality standards. The station manager is aware of the huge power problems and tries to save electricity where possible. Maintenance, such as cleaning the clarifiers and other installations, takes place

regularly and the plant appears clean and well kept. The project has increased the production of safe drinking water for Kumasi by 40% and gave its inhabitants access to more drinking water of a high quality.

The **Tamale** plant is the only water production site in the Northern region. The project has increased water production by 25,000 m^3 per day, to more than double the volume produced before. An additional water treatment plant is urgently needed because with an average daily output of 44,000 m^3 the current plant is already producing at its maximum capacity of 45,000m^3. The staff is committed to producing water in large amounts and of good quality. Several steps in the improvised production process need revision as parts of the system are no longer functioning properly (e.g. intake pumps, chlorine and lime disinfection units, scraper bridges, and power factor equipment).

Despite the advantages of increasing the volume of drinking water available, certain aspects of the water supply system and related factors in Ghana have limited the effectiveness of the ORET transactions. First, water production is constrained by regular power outages in Ghana, low electricity voltage and weak high-lift pumps at the plants. Daily power outages form a clear risk for the sustainability of the plants. In addition, the weak pipelines cannot withstand the higher water pressure required to increase water distribution and they frequently burst. Another issue requiring attention is the financial and institutional weaknesses of GWCL; among other things, these result in production losses from delays in procurement of necessary *inputs* (chemicals) and poor management of spare parts.

Sustainability

A "*culture of maintenance*" is important to guarantee future water production is in accordance with international standards. Timely maintenance and proper repairs of equipment are of the utmost importance for the technical sustainability of the plant. Leakages in the distribution system are identified as a major concern throughout Ghana, and this is worsened by GWCL having no system to rapidly detect and manage breakdowns and burst pipelines. Another technical threat to sustainability of the network is the lack of standardisation in materials and spare parts for the distribution network. This poses serious problems for repairs because old and new pipes are not standardised so it costs more to connect them.

In **Kwanyaku**, Denys has still one third of the plant staff (eight out of 25 employees) under contract to maintain the plant and support GWCL staff. These costs are borne by Denys itself. According to the local manager of Denys a technical and maintenance assistance period of two years, as was included in the transaction, is not sufficient to develop a "*culture of maintenance*". Another problem is that staff of GWCL often change jobs and knowledge is not transferred. There are no procedures for monitoring the operation of the plant: the first comprehensive inspection should have been done five years after its start-up but there has been no inspection to date. It is uncertain what will happen when Denys no longer provides technical support. If a standpipe breaks down, 75% of water vendors call a local technician to do repairs; there is no difference between the treatment and control groups. Only 20% of standpipe owners call GWCL for assistance and the remaining 5% call a technician from a

nearby larger town or attempt to mend the pipe themselves. Private technicians appear to be much faster in providing repair services than GWCL. More than 50% of respondents in the treatment and control groups received prompt attention from the local technician upon request. In both groups 70% of respondents reported that the response of GWCL to such calls was either very slow or there was no reaction at all. There is no statistically significant difference between the treatment and control groups regarding the responsiveness of local technicians and GWCL. There is a statistically significant difference between ORET and private water standpipes in terms of number of days the standpipe was out of order during the last breakdown; 21 days for private water vendors and 45 days for ORET standpipes. The main reason for this difference is that ORET standpipe operators lacked sufficient funds to pay for repairs. 16% of ORET standpipe operators reported that they did not have sufficient funds to pay for repairs, compared with only 6% of private operators. This difference is statistically significant at a 10% level. The two groups do not differ statistically significantly in terms of the repair costs incurred during the last six months prior to the survey.

In **Tamale**, Biwater handed over the plant in 2008 with a six-month period of additional technical and maintenance assistance. This was not sufficient to develop a "*culture of maintenance*" among the local employees. Local management was also reluctant to handle the new technologies in an appropriate manner, in particular the new chlorine and lime installations, which need additional backflushing of the system in situations of frequent power outages in Tamale. Spare part management was not functioning properly either, which threatens the technical sustainability of the plant. In **Barakese**, the current production has not yet reached its maximum capacity, but this shortfal is mainly due to power cuts and the inadequate transmission mains that cannot handle larger quantities of water. The planning for an extension of the distribution network is ongoing but this project is hampered by financial constraints.

Water Tariffs and Social Aspects

Access to safe drinking water is very important for the population of Ghana and its policy makers. To meet population growth and increasing water demand, the water system will have to be constantly improved. For this to happen, it is necessary that all people benefitting from the water treatment plants also pay for the water they consume. Illegal connections, manipulated meters and a non-payment culture for water pose clear threats to the sustainability of the water system. The current water tariff structure of GWCL is a serious threat to the financial sustainability of the system. Tariffs are far too low to cover the operational costs and salaries of the water plants, even disregarding the costs for maintenance. Actual water consumption is often not paid in full by end users, especially in areas where richer people live and where flat rate tariffs have existed for a long time. All three water plants discussed here face financial problems, with serious consequences, in particular for their ability to procure spare parts. In contrast to the general situation, all but two of the standpipes observed during the survey have a working meter. On average, about 80% of respondents in the treatment and control groups indicated regular billing by GWCL; another 15% indicated that they are billed more or less regularly. About 5% of operators in the control group indicated that they have never been billed. There is no significant difference between the treatment and control groups regarding the frequency of receiving

water bills. Standpipe owners and responsible operators who receive bills pay the water bills to GWCL directly.

There is a statistically significant difference between the average price charged to end users of ORET standpipes and the price charged by private water vendors. The mean price for a 34 litre container of water is GHS 0.14 for the control group and GHS 0.12 for the treatment group; this difference is statistically significant at the 5% level. There is no statistically significant difference between the treatment and the control group in the mean quantity of water sold. In the control group both the calculated mean and the self-reported monthly revenues from water sales are somewhat higher than those of the control group but not significantly so, implying that both groups earn comparable revenues. The calculated mean revenues for both the treatment and control groups are higher than the self-reported mean revenues. This suggests that revenues are underreported. In summary, compared to privately operated standpipes, the tariffs for ORET standpipes are cheaper yet approximately the same volume of water is sold.

Regarding the poverty aspect of the transactions, the vendors of water from the ORET standpipes give poor people somewhat cheaper access to water because the price charged per container is lower. For standpipes in the treatment group the price is largely determined by GWCL, whereas the majority of the private standpipe owners in the control group set their own prices. For instance, 72% of respondents in the control group set their own prices, whereas 28% follow the price set by GWCL or the water committee. In contrast, 57% of respondents in the treatment group rely on GWCL or the water committee for price setting while 43% of the vendors in the treatment group set the prices themselves. The difference between the two groups in terms of price setting is statistically significant at a 5% level. The interviewed household heads revealed that they would be willing to pay GHS 100 for being connected to piped water and a monthly flat rate of GHS 20 for water consumption. At current water prices, a flat rate of GHS 20 would be advantageous if monthly consumption were above $3.5m^3$, disregarding time savings and convenience. It would, however, be impossible to connect a household to the mains for GHS 100: private owners had paid about GHS 528 for the installing of the pipes and tap. Strong political pressure is being exerted on the government to continue to subsidise and stabilise the price for drinking water, notwithstanding the increasing burden for the government budget of the debt service of foreign investment loans and the rising cost of imported *inputs*. At present, the low and flat water tariffs and uncollected revenues from non-revenue water end up favouring richer consumers, whereas the poorest pay the full price for each bucket of water - a load that they also have to physically carry.

Ecological

In **Kwanyaku**, ecological standards are well maintained as Denys is still actively supporting the management of the plant. Sludge from the water treatment plant is properly disposed of and even used as fertiliser for mango trees, leading to extra income for the people living near the plant. When Denys leaves the plant, there is no guarantee that these standards will be maintained.

Water from the standpipes was found to be of high quality in terms of pH (average 6.88), residual chlorine (0.55 mg/L) and non-detectable faecal *E. coli*. The water tasted rather soft, with calcium and magnesium levels far below their respective thresholds of 100mg/L and 500 mg/L. Softer water is preferred by customers for washing because less soap is required for suds. Overall, the results of the 140 tested standpipes show that there are no health threats from the drinking water provided by the public and private water-vending standpipes. The water meets WHO standards (which are also the national standards) and this was confirmed in the interviews with end users. In **Tamale,** ecological standards are not well maintained at the plant: the sludge is not removed properly and is simply dumped close to the plant. This does not cause an environmental problem nor does it result in water of lower quality, but money is being wasted because the sludge could be used as fertiliser. Due to the lack of supervision, hygienic standards are not well followed. In **Barakese**, ecological standards are well maintained: e.g. sludge is disposed of properly and the plant is well maintained and kept clean.

Relevance

According to the Ghanaian Ministry of Water Resources and Housing, water supply infrastructure is a key government priority. According to the Strategic Water Development Plan[14] the Government's target is to reach 85% urban water coverage and 76% rural coverage by 2015. As investment in water infrastructure is in line with MDG 7c, which is to reduce by half the population without access to improved drinking water and sanitation, the ORET projects in water infrastructure have been extremely relevant for human development in Ghana. Since 2003 Ghana has followed the Ghana Poverty Reduction Strategy (GPRS), in which one of the key priorities is increasing access to safe drinking water. According to the WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation, Ghana met the target on access to drinking water by increasing the proportion of the population served from 54% in 1990 to 87% in 2012. These investments were often also justified in terms of improving health, particularly to reduce diarrheal incidence in children under the age of five.

Additionality

Without the ORET grants probably none of the drinking water projects in Ghana would have been funded in a similar way. The attractive funding conditions (under ORET's Water Facility, a grant of 50% of the estimated cost) and the volume of available funds made ORET the main funder of drinking water projects in Ghana. An alternative could have been the World Bank loan of US$ 103 million in 2005, which also financed the Aqua Vitens Rand management contract for GWCL. But it is uncertain whether the same number of projects would have been funded under this loan. The transactions would very probably have been implemented, but with grants forming less than 50% of the funding, as was the case for other sectors in Ghana, with Ghana having to fund a larger proportion of the costs with commercial loans. For the Barakese water treatment plant in Kumasi an additional investment of EUR 12.5 million was made in 2010, fully financed by a commercial loan.
This shows that it would have been possible for GWCL to find financing means other than grants, though probably on much less favourable terms and for smaller amounts.

[14] http://www.wsp.org/sites/wsp.org/files/publications/CSO-Ghana.pdf.

Coherence

The Netherlands has focused on good water management worldwide because water management is one of the four main priorities of Dutch development cooperation policy[15]. It has contributed considerably to aid in the water sector globally: from 2006 to 2007 it made commitments of US$ 392 million in the water sector, which was about 11% of the total Dutch aid and amounted to 6% of total allocable aid in water and sanitation worldwide (OECD, 2008). Most water-related ORET transactions were co-funded by commercial export credits from Dutch banks that were insured by Atradius DSB against the risk of non-payment, though for a considerable price. In general the ORET transactions in the water sector in Ghana can be considered as being coherent with the policies and strategies of the recipient country and with the aid and export promotion of the Netherlands itself.

15 http://www.government.nl/issues/development-cooperation/the-development-policy-of-the-netherlands/water-management.

8.3 Drinking Water in Sudan

Introduction and Methodology

This section describes the results of the evaluation of the ORET-supported Al Manara water treatment plant (SD00003) in Sudan that was part of the larger Omdurman Water Supply Project. The project is being implemented under a BOOT contract (Build, Own, Operate, Train/Transfer). For the project's ownership, Khartoum State Water Company (KSWC), FMO, and the UK-based contractor Biwater established a special purpose company in the form of a Public Private Partnership (PPP) with a capital-light structure: the Al Manara Water Company (AMWC). The Al Manara plant was constructed by Biwater, who still have a management contract with AMWC for its operation. The operation and maintenance of the treatment plant will remain under control of AMWC for ten years until the loans for the construction have been fully repaid, which is expected to be in 2020. Then the equity shares in Al Manara held by Biwater and FMO are to be transferred to KSWC.

The main objective of the Omdurman Water Supply Project was to improve access to potable drinking water for the population in the Greater Khartoum area with a view to improving their living standards. The project activities entailed constructing of the new drinking water treatment plant (which has a capacity of 200,000m^3 per day), transmission mains, a connection to the new storage reservoir (40,000m^3) and booster station at Al Thoura, and the connection to the existing storage in Al Gamayir. In addition, a Water Asset Management Programme (WAM) was put in place with a view to reducing the volume of unaccounted for water and to improve the distribution management, operation and maintenance. The ORET transaction focused in particular on the water treatment plant and the WAM; the other components, such as Thoura Reservoir, the transmission mains and the sludge treatment from the plant and everything else not associated with the water treatment plant were executed under a different contract.

The evaluation assessed six criteria: efficiency, effectiveness (impact), sustainability, relevance, additionality and policy coherence. Special attention was devoted to ascertaining whether the water institutions have the resources and capabilities to continue functioning after the plant has been turned over to KWSC. The evaluation was conducted on the basis of desk research (the ORET archives and additional reports provided by stakeholders in the project), semi-structured interviews with institutions and contractors, focus group discussions with staff groups and interviews with end users of water. In general, it was difficult to obtain relevant and reliable data from KSWC, especially financial reports. All results based on KSWC information have to be interpreted with care.

In addition, a survey was conducted among beneficiaries in the AMWC catchment area. The approach applied was a before-and-after method, with a control group added only in 2014. Although the before-and-after method has its limitations regarding impact measurement, because of the lack of information no other approach was feasible. A baseline survey was conducted in 2007 but only among beneficiaries of the Al Manara water treatment plant. Since it is also interesting to determine the effect of the water treatment plant on both beneficiaries and non-beneficiaries, a population in an area where households are not connected to the mains but obtain their water from vendors was sampled.

A household survey was conducted in August 2014 by interviewing 924 households in total in the Kararie Locality (Mahaliyya). Eighthundred households were part of a survey conducted in 2007 and were reinterviewed in 2014, while 124 households in Al Fateh were interviewed for the first time in 2014 to investigate the current situation of households not connected to the mains. Due to time and capacity constraints the team was only able to sample the water from 160 households.

The Client

KSWC, the client of the transaction, is a 100% state owned company responsible for providing potable water in the capital and Khartoum State. After a period that saw various administrative changes in the water sector in Sudan, KSWC was founded under the Water Sector Reform in 1994, becoming responsible for the water supply in Greater Khartoum. Administratively, KSWC is managed by a Management Board supported by a number of divisions that are responsible for Internal Audit, Legal Administration and Local Affairs. The company is divided into several units, among them the Project Planning Unit, Water Resources Unit, Technical Affairs, Laboratories and Quality Control Unit. In total, KSWC employs 2778 people, 65% of whom are administrative staff and only 35% are technical staff – an illustration of the company's top-heavy structure.

KSWC runs 11 water stations that together produce 776,883m³ per day and serve the 5 million inhabitants of Sudan's capital city. Al Manara is the second largest plant in Khartoum and provides about 24% of the total daily water production in Khartoum. Since the population also uses boreholes (numbers unknown), KSWC estimates Al Manara's contribution to the total daily water production at 13%. KSWC is responsible for the distribution of the water produced in Al Manara. There are currently 154,337 private connections to Al Manara. The majority of customers (85,534) live in the Kararie Locality and are among the richer households. The other customers live in Omdurman (4,807 connections) and in the Ombadda Locality (63,998 connections). The only plant supplying water to these three areas is tha Al Manara plant.

Table A – 6 Funding Structure of Al Manara

Source	Amount in EUR
ORET grant	24,311,153
FMO/IDF subordinated loan	19,976,272
Total funding ORET transaction	**44,287,425**
Bank loans from IDC/South Africa and Mexim/Malaysia	43,947,582
Total Al Manara	**88,235,007**

Financing and Water Tariffs

The BOOT arrangement implies that the cost of construction was financed by a mix of an ORET grant and various types of loans. During the first ten years, the plant is being operated and maintained by AMWC and the water it produces has to be sold to KSWC at a price that is sufficient to pay the interest and to amortise the project loans, and to cover the operation, maintenance and management costs of the plant. Funding for the project was secured by a

combination of approximately EUR 64 million "soft" loans from government-backed development banks in the Netherlands (FMO), South Africa (IDC) and Malaysia (Mexim), together with a EUR 24 million grant from ORET (see Table A – 7). The loans are provided for a period of 13 years, comprising an initial three year construction period followed by a ten year operating period. The BOOT contract enabled KSWC to extend the water infrastructure without making any initial capital investments ("capital-light"). Neither KSWC nor the Khartoum State Government nor the Federal Sudanese Government are supposed to pay anything until the BOOT contract ends, although the Federal Ministry of Finance has given a payment guarantee.

Table A – 7 Flat Tariff System (Sudanese pounds (SDG) per month and litres)

Class	Connection	Tariff 2008	Tariff 2014	Average Daily Consumption
1	1 inch connection (residential)	41	45	250
2	¾ inch connection (residential), offices, apartments, supermarkets and clinics	25	25	200
3	½ inch connection (residential)	19.5	15	150

AMWC runs the plant on the basis of a "break-even" tariff that consists of two components: a capacity charge and a consumption charge. Both are euro-denominated and billed monthly to KSWC. The first component is based on the full capacity of the water treatment plant (200,000 m³/day). It covers repayments and interest charges on the loans and the fixed costs of operating and managing the plant, such as fixed electricity costs, salaries, management fees, administration and maintenance costs. It ensures that the lenders are paid back and that AMWC is paid independently of the volume of water produced, to cover the fixed costs. The second component is based on the actual water production by the plant and covers the variable costs of the water volume produced, such as electricity, chemicals and cost of sludge disposal. The combined tariff in the BOOT contract was EUR 0.2422/m³, composed of a capacity charge of EUR 0.1892/m³ and a consumption charge of EUR 0.053/m³. In 2014, the combined tariff was lower: EUR 0.2296/m³, split into a somewhat higher capacity charge of EUR 0.1902/m³ and a lower consumption charge of EUR 0.0394/m³.

KSWC is responsible for distributing the water to end users in Khartoum State and invoicing them. With the current water tariff system KWSC charges end users a flat rate per household per month based on the classification of residential houses[16] and the size of the connected pipe but regardless of the actual consumption. The flat tariff was based on estimates by KSWC of the average per capita water consumption per day in the three residential classes.[17]

[16] The three class water tariff system is based on the Khartoum town planning system, which classifies housing as first class (a surface area from 500 to 1200 m²), second class (an area from 400 to 700 m²), and third class (an area from 200 to 400 m²) (Shora Consultancy 2006).

[17] The daily per capita consumption figures are very high and do not seem realistic. They are derived from KSWC reports and the project documentation of the Al Manara project. Other estimates of daily per capita consumption range between 27 litres per capita per day in poor residential areas (Cairncross and Kinnear, 1992) to 70 litres per capita per day in richer residential areas (Edge Consultancy, 2007).

Table A – 8 compares the monthly water tariffs in 2008 and 2014, which shows almost no change in tariffs except for the poorer class 3 connections, where the price even decreased. According to KSWC, fee collection improved drastically between 2011 and 2014 after the introduction of a pre-paid system in 2012 that combines water and electricity. Now customers have to pay their bills at the beginning of each month in local offices of the Sudanese Company for Electricity Distribution, which falls under the Federal Ministry of Electricity and Water Resources.

Efficiency

The ORET grant and the concessional loans were disbursed on time. The implementation of the construction was successful in technical terms despite some delays in the work that occurred mainly because some imported construction materials were held up in customs. A crucial component of the project was the Water Asset Management Programme (WAM), which involved training the staff of Al Manara and KSWC in order to ensure efficient administration. During the training, which was provided by Biwater and Farrer Consultancy, it became clear that effective management of the water system would require essential information on the pipe network, such as maps of the pipe networks and flow meters, but there were none. So part of the funds for WAM went into developing a system for monitoring the network, and Biwater also installed a WAM system together with KSWC. Household properties were listed and the billing system was revised. Initially, only 96,000 customers out of a total of 254,000 connected households were billed. This rose to 145,000 in 2011 and in 2014 154,337 customers connected to Al Manara were being billed.

Production rose steadily after 2010 but downturned temporarily in the second half of 2013. Obstacles to increasing water production were the slow growth in new household connections and problems with transmission pipelines; KWSC was responsible for both. Since the decision to distribute water to the Al Gamayir and Al Thoura areas too, Al Manara has produced around 180,000m^3 of water per day, which is between 80–90% of its capacity. All water produced at the Al Manara plant is invoiced to KSWC. However, KSWC estimates that around 30-35% of water delivered to households in Greater Khartoum is unaccounted for. This percentage is the difference between the revenue from water sales to end users and the amount paid for produced water. This estimate could not be validated because KSWC did not make the figures for unaccounted for water available to the research team.

Water quality samples are collected daily at designated points at the Al Manara water treatment plant at the frequency stipulated by the BOOT Agreement. Samples are analysed in the laboratory on site to determine compliance with the primary parameters defined in the contract. The water also has to comply with the Water Supply (Water Quality) Sudanese Regulations and WHO Guidelines. Independent monitoring of the water quality is carried out by the Khartoum State Ministry of Health and KSWC. The parameters analysed once a day for both the raw water (from the Nile River) and the treated water are turbidity, pH, colour, alkalinity and temperature. Any deviation from the standards for drinking water results in immediate adjustments to the disinfection process at the plant. The population considers the water from Al Manara to have the best water quality in Khartoum.

Effectiveness
From a technical point of view, at the level of the water plant the project has succeeded in providing drinking water of high quality. In addition to constructing a new plant, transmission pipes to reservoirs were installed and a new reservoir was built in Thoura. At an average production of 180,000m³ per day AMWC estimates that the plant serves around 1.2 to 1.4 million people. However, since water meters are lacking, it is not possible to validate either this figure or the daily consumption figures. Neither is it possible to report on the change in household connections, since KSWC did not make these figures available.

At beneficiary level, the problems most mentioned in the survey concerning the water supply in 2014 are frequent water cuts in general (38%), water cuts especially in summer (15%), and low water pressure (10%). 34% of respondents consider the price for water to be too high but only 8% mention bad water quality. Minor problems reported are administrative issues with KSWC (2%). 22% of respondents say they have no problems at all with their connection. In 2007 86% of households in the Kararie Locality had a piped connection; by 2014 this number had risen to 98%. The survey of the 124 households in Al Fateh, an area where KSWC planned to build piped connections in recent years, however, shows very different results. Here only 36% of the sampled households are connected to the mains and most of these were not connected until 2013. Most households in Al Fateh therefore do not have piped water and so buy water from donkey cart water vendors (88% of households in Al Fateh). These households usually buy the water in 25-litre jerrycans or in 200-litre barrels. The price per jerrycan ranges between SDG 1 (EUR 0.14) and SDG 5 (EUR 0.75), the cost per barrel ranges substantially: between SDG 15 (EUR 2.1) and SDG 70 (EUR 10). About 70% of households buying water from vendors had received all the water they demanded during the week before the interview. About 30% of households indicated that due to insufficient water availability or lack of financial means they could not buy all the water they needed for their daily needs.

The results of the water quality tests show that there is no residual chlorine in the water of the unconnected Al Fateh area. This indicates that the water people consume is either completely untreated or that all the chlorine to eliminate pathogens in the water has been absorbed. The higher turbidity indicates that water in Al Fateh is more often associated with higher levels of pathogens such as viruses, parasites and certain bacteria. This is confirmed by the E. coli indicator, which shows that 53% of households in Al Fateh consume contaminated water, compared with only 2% in the other areaes surveyed. The results of the self-reported water quality in the surveys in 2007 and 2014 show that in both periods 54% of people connected to the piped system considered the water quality to be very good or good. Whereas in 2007 48% of the surveyed population regarded the water quality as insufficient, in 2014 only 27% regarded it as insufficient and 23% considered the water sufficiently good. For those households purchasing water from vendors, 70% perceive the water as very good or good quality, 5% as sufficient quality, but 25% regarded the water quality as being bad (19%) or very bad (6%).

Sustainability

Financial. From a financial perspective, the main challenge for AMWC is getting the loans repaid because KSWC does not always pay its water bills, or pays them late and these bills include the amortisation of the loans. The expectation that the loans will have been repaid completely by 2020 through the capacity charges in the water bills seems too optimistic. At the moment of writing this report (December 2014) repayment had halted. In response to these payment difficulties, the project lenders have given the guarantor – the Khartoum State Government – a waiver of its obligation to guarantee the repayment of the loan principal. Following a meeting in November 2014 to review the payment situation and seek a longer-term solution to the payment difficulties, the Khartoum State Government is now looking into a number of options for refinancing the project or even for arranging a buyout of the project.

Table A – 8 Actual and Official Water Tariffs (SDG)

Class	Actual	Official
First	24.71	45
Second	15.91	25
Third	15.56	15

Sources: Household Survey and KSWC Sales Department (n=693).

An additional threat to financial sustainability is the flat rate scheme for consumers. Water tariffs have not been adjusted since 2008 whereas prices for goods and services have risen by 40%. All efforts by KSWC to increase the tariffs have failed because of strong political and consumer resistance. Another major disadvantage of this system is that consumption per payment class cannot be controlled and in the absence of water meters in private homes consumers have no incentive to economise on their water consumption. In practice the flat rate water tariffs households reported they are charged differ substantially from the official tariffs listed by KSWC (see Table A – 8). Richest households (class 1) pay far less for water than they are supposed to do, whereas on average the poorer households (class 3) pay the official tariff. The application of the tariff scheme seems to vary greatly over households: 18% of the households surveyed reported that they had not paid for water in the month prior to the survey. About 50% of the sample said they paid SDG 15, regardless of their residential class. Since 2012 the usual method for settling the water bill has been to pay as part of the combined pre-paid charges for electricity and water. Pre-paid payment now seems to be the norm, as 95% of households report paying this way. The 5% of households who report not paying in this way probably do not pay at all.

Technical. The Al Manara water treatment plant is considered to be the most advanced water treatment plant in Khartoum in terms of the state of its technology, laboratory facilities and other equipment. As the financial means for planned maintenance are lacking, however, an obvious threat is unforeseen breakdowns. KSWC does not have financial reserves to pay for any routine or emergency repairs.

The BOOT contract provides for the water treatment plant to be operated and managed by Biwater until 2020. Thereafter the plant will be fully transferred to KSWC. KSWC is often described as a weak institution which is managed by senior staff who are reluctant to delegate power. Administrative processes within the institution are not transparent, which poses a threat to sustainability in general. The BOOT contract foresees transfer of the staff at AMWC to KSWC as part of the transition of the facilities to Khartoum State. Due to the combination of the foreseen transfer of at least a large part of the staff and the long period of working together with Biwater, the handover of the water treatment plant to Khartoum State in 2020 should not face major problems. Whether the ten-year joint operation and management period will be sufficient for a "culture of maintenance" to take root remains a matter for further investigation.

Ecological. Compared to other water treatment plants operating in Khartoum, Al Manara is the most sound from an ecological point of view. It uses modern techniques and applies international standards for operating the plant and producing drinking water. As Biwater is still managing the plant, the hygienic standards are well maintained. Whether these high standards will be maintained after 2020 is uncertain.

Social. The cost of connecting a household to piped water is paid by the end user but differs per residential class, ranging between SDG 1 and SDG 4 per metre of pipe laid between the household and the main transmission pipe. Households in class 1 pay SDG 4 per metre for a 1 inch diameter connecting pipe, class 2 households pay SDG 2 per metre for a ¾ inch diameter connecting pipe, and class 3 households pay SDG 1 per metre for a ½ inch diameter connectin pipe. KSWC has delegated the connection of household to "popular committees" (lowest administrative level responsible for social services in neighbourhoods) so that it can collect connection fees from one source. People in Al Fateh complained that this administrative arrangement is susceptible to corruption practices that disadvantage poorer people. In interviews people mentioned the common practice of "popular committees" arbitrarily charging higher connection fees to generate income for themselves.

In 2009/2010 there were also several demonstrations and attempts by the population of Greater Khartoum to resist the planned increase of water fees by KSWC. In contrast to the installation of electricity meters, the installation of water meters proved controversial among the population of Greater Khartoum. KSWC has installed a few meters in business and industrial areas but has so far failed to do so in residential areas. Water in Khartoum remains a very sensitive issue, especially during summer and Ramadan when people become more agitated about having an adequate water supply. Water supply is a daily concern for most people and a politically sensitive issue for policy makers.

Relevance

The ORET project in water infrastructure is regarded as being most relevant in water-distressed Sudan because of the impact of reliable and quality drinking water on public health and social development. Water supply is also very important for political stability. According to the National Five-year Plan (2012–2016) of March 2012, water management is still a high priority, with government policy aiming to provide clean drinking water to the population

in all states. As the Al Manara water treatment plant provides 24% of water production to Greater Khartoum, the ORET programme has contributed significantly to water improvements in the area.

Additionality

Without the ORET grant, the Al Manara project would not have been realised. The grant was crucial in the overall financing structure of AMWC due to the unavailability of funding at KSWC. It also played a catalytic role in mobilising other funds for the larger Omdurman Water Supply Project. The 55% grant component for the ORET part was very favourable for KSWC, enabling it to pay lower tariffs for the water produced by the water treatment plant and to charge lower prices to end users. The attractive financing conditions and the establishment of AMWC for management and operation both contributed greatly to increased water supply in Greater Khartoum.

While the BOOT contract for AMWC offered the benefit of a huge investment and small capital outlays up front for the client KWSC, it has not provided a magic solution because of some basic flaws in the financial design. The most important problem is the currency mismatch between on the one hand the euro-denominated loans and water tariffs that KWSC pays to AMWC (in particular the capacity charge) and on the other hand the intended repayments from water revenues collected in local currency from newly connected customers. Another problem is that AMWC has no control over the number of newly connected customers and the water tariffs whereas the product of new connections times invoiced water in the form of water revenues is a critical element of the prize-winning financing model of AMWC.

Coherence

The Netherlands has contributed considerably to aid in the drinking water sector globally. In the period 2006 to 2007 it made commitments of US$ 392 million in the water sector, which was about 11% of the total Dutch aid and amounted to 6% of total allocable aid in water and sanitation worldwide (OECD, 2008). The Al Manara plant was responsible for meeting a considerable part of the pledge of Minister van Ardenne to increase the number of people having access to safe drinking water under MDG7c. The financing structure of Al Manara did not require the insurance of a related export credit nor the financing of preparatory cost of the project since these costs were borne by FMO, which financed the project from the two concessional development funds (ORET and IDF) it was managing at the time on behalf of the Dutch government.

8.4 Medical Diagnostic Services in Tanzania

Transaction

The transaction "Rehabilitation of Diagnostic Services in Tanzania" (TZ00030) involved supplying diagnostic equipment to 98 regional and district hospitals in Tanzania and providing training on its use and maintenance. The transaction amount was EUR 26,774,848 and the definitive ORET grant was determined at EUR 16,694,909 (60% of the total transaction costs). The project started in 1998 and was based on a comprehensive approach and the long-term cooperation between the Dutch company Philips Medical Systems BV (PMS) and the Tanzanian Ministry of Health and Social Welfare (MoHSW). The project aimed at improving the quality of health care services by halting the deterioration of diagnostic services in the country. This was achieved by extending of the coverage of the services by replacing old outdated equipment, introducing new equipment, and improvement in the quality and quantity of the necessary medical and non-medical staff through training and education on the use of the equipment.

The evaluation of this transaction is based on the following sources of information:

- Relevant documents in the ORET archives administered by ORET.nl, such as the grant agreement, feasibility studies and appraisal documents, progress reports, technical reports and monitoring and final reports.
- Relevant documents in the archives of the Ministry of Foreign Affairs, including the Dutch Embassy in Dar es Salaam.
- Documents and data provided by the Tanzanian authorities and other stakeholders in the country.
- Various publications on the situation of the health sector in Tanzania.
- Interviews with stakeholders in the Netherlands and Tanzania during the period August 2014 - March 2015.
- Visit to four hospitals during a preparatory mission to Tanzania in August 2014.
- A face-to-face survey in 20 of the beneficiary hospitals in September and October 2014.

Efficiency

Application. The first application for ORET support was submitted in the mid-1990s. It was rejected because the proposed equipment was considered too advanced for the recipient hospitals and the proposed project did not include the necessary training, or the preparation of the locations. The Embassy was anxious to avoid a repeat of the situation that had occured in a similar project in Kenya, five years previously, where no money had been reserved for maintenance and pressure was put on the Dutch government to supply funds to prevent the loss of the invested capital.

The second application did have a wider scope: it included basic equipment, the rehabilitation of the water and electricity supply, upgrading of the locations in which the equipment would be located and training of the hospital staff. The approval process took about 20 months between submission of the application and signing of the grant agreement, which is a usual period for ORET applications.

PMS was contracted directly because an ICB procedure was not required by ORET at the time of the application. The prices of the various components of the transaction were checked by an independent price consultant who concluded that they were market-compatible. The contract offered a comprehensive package, including the set-up of a maintenance structure, delivery of spare parts, and training of local professionals. The non-grant part of the transaction was funded from the budget of the Tanzanian Government and paid in instalments after delivery of each batch of the transaction.

Implementation. The delivery of equipment was spread over several years to prevent a situation in which replacements would be needed simultaneously. Parallel to installing the equipment, training of professionals – mainly radiographers and technicians (the latter in four zonal workshops) – took place. By 2006 all project obligations were fulfilled and 98 hospitals had been supplied with X-ray and ultrasound equipment. More basic diagnostic equipment that was less expensive was delivered only to selected hospitals. The health authorities indicated that collaboration with the Dutch embassy and PMS went smoothly ("friends in improving health care"). Shared responsibility was mentioned as a prerequisite for a successful project. All interviewees confirmed that this ORET project was implemented very successfully. All the equipment was delivered and installed, most of it on time. Halfway through 2000, the Tanzanian government faced difficulties in meeting its financial obligations under the transaction. The government was too late with transferring the second and third instalments to the NIO Bank. In reaction the supplier stopped shipment of the supplies. It took some time before these problems were resolved. As a result the project was delayed by at least one year.

In the 20 hospitals surveyed, 36 radiographers had been trained in the use and maintenance of the ORET diagnostic equipment. According to the archives, in total 434 staff members of the 98 recipient hospitals were trained, but this figure could not be confirmed by the survey. Most interviewees considered the training (two weeks) too short. Eight technicians were successfully trained and employed by MoHSW to work in the four zonal maintenance centres. However, these workshops have since closed down. The School for Radiography revived its curriculum and collaborated with Fontys University of Applied Sciences in the Netherlands.

Effectiveness

It is virtually impossible to determine the attribution and contribution of this transaction to health performance in the various regions, especially because the transaction took place such a long time ago. This was confirmed by some stakeholders who stated that the substantial improvements in health care services in Tanzania over the last decade were largely a consequence of improved infrastructure and better transport and communication possibilities. As an illustration, the Tanzania Service Provision Assessment Survey 2006 showed that the situation at that point in time was far from optimal: "less than half of the facilities providing antenatal care have the basic recommended equipment and supplies". Furthermore it noted that in only 7% of the antenatal care visits all relevant questions were asked and examinations (including ultrasound) were performed.

The ORET contribution can, however, be established at the level of the hospital services. The X-ray and ultrasound equipment were working well and being used for patient care. The X-ray and ultrasound equipment worked as expected and the survey revealed that on average, per hospital 40 X-ray images were produced on each workday. Before this ORET transaction most hospitals did not have working X-ray and ultrasound facilities. Thus as a result of the transaction, maternal care and TB care have improved, although it is not possible to substantiate this view of the hospital staff with exact figures.

The project improved the diagnostic services at district, regional and tertiary (referral and specialised) hospitals through provision of medical equipment and infrastructure, preventive and corrective maintenance, training and technical assistance.

After completion of the project a public procurement procedure was started to continue the maintenance of the equipment. The follow-up contract was awarded to PMS and covered the period 2006–2011. Partly because of the successful implementation of this project, PMS was awarded another contract by the Government of Tanzania for a project co-financed by the successor to ORET: ORIO. This project aims to reduce mother and child morbidity and mortality rates, as well as general morbidity and mortality rates in Tanzania. To achieve this, the project takes an integrated approach to investing in infrastructural works, medical equipment and capacity building in 37 selected public hospitals at different levels.

Sustainability

Financial. The financial sustainability of the diagnostic services in governmental hospitals is not guaranteed. Consumables were provided by MoHSW or bought locally and financed from the hospital budget. This arrangement is not sustainable due to irregularities in the supply system and the flow of funds from government. The co-payments by patients are pooled with other financial revenues to support overall hospital activities.

Technical. Based on the four ORET hospital visited and the survey of the 20 hospitals, the current picture is as follows. With a few exeptions, 14 years after the project ended the ultrasounds equipment is no longer functioning. Most ultrasound devices worked for 7–8 years. The survey confirmed the initial assessment. It indicates that of the X-ray machines (excluding the dental X-rays) that were delivered, 60% are still functional, and 40% are partly functional. Some interviewees indicated that the machines were used too intensively and broke down for that reason. The dark-room equipment delivered is either manual or automatic. Most manual dark-room equipments is still functional (16 out of 19) but is considered to be outdated and/or of poor quality. Half of the automatic dark-room equipment is no longer working. Furthermore, the results of the survey show that of the ultrasound equipment, only two of the 15 devices are still in use. However, these devices are considered to be of poor quality and outdated.

The maintenance included in the transaction made it possible for the hospitals to keep the machines going and to sustain their diagnostic services. The contract between the Government of Tanzania and PMS for maintenance did not guarantee regular maintenance, since MoHSW did not pay for the services provided. Hence, PMS and its local representative

(Mokasi) have now stopped their services and this has led to recent technical problems at several locations.

Staffing. In the surveyed hospitals 28 of the 38 trained workers were still working at the hospital (average 1.4 per hospital). None of the eight technicians trained to be employed in the four zonal workshops is currently working for MoHSW. They have retired or changed jobs. The workshops are no longer operational, making MoHSW fully dependent on commercial suppliers such as Mokasi. In the long run the Tanzanian authorities expect an increase in the number of biomedical engineers because of the plans for a biomedical engeneering degree course. The authorities foresee that the resulting graduates would be able to do preventive maintenance and would only have to call on the assistance of commercial suppliers in the case of breakdowns or when spare parts are needed.

Institutional. If adequately maintained, the X-ray machines may be expected to work for approximately another five years. However, there are no financial arrangements or proposed projects and therefore the continuation of diagnostic services in Tanzania is uncertain.

Environment. The radiation issue related to the X-ray equipment in the ORET-hospitals in Tanzania was dealt with by refurbishing the X-ray facilities. The main environmental issue seems to be the disposal of the chemicals for developing exposed X-ray film. It was not possible for the evaluation team to assess the environmental impact of the current situation and the treatment of chemical waste. All hospitals surveyed indicated that digital X-ray is the only way forward to improve this situation.

Relevance

The delivery of ORET equipment has been relevant from the perspective of the overall health system and end users in Tanzania. At policy level, the ORET project was in line with the goals of the health sector reform programme of work 1998/99–2000/2001 and with health policy. One of the goals was to ensure that health services were available and accessible to all in urban and rural areas. The ORET project increased access to diagnostic service to the majority of people who had to travel long distances to access diagnostic services such as X-rays.

To PMS, the ORET project turned out to be the poster child for a successful project. It is still used within the company as a teaching example. The project was a learning experience for PMS in the sense that the equipment was not simply delivered but that training of staff and maintenance programmes were part and parcel of the implementation of the transaction.

Additionality

The ORET-financed rehabilitation of diagnostic services was unique for Tanzania and essential for upgrading the diagnostic capacity. Other donor countries did not provide support for such large scale projects in health care, and mainly focused on smaller medical equipment, drugs and consumables. We found other models of equipment with similar functions to the ORET equipment that other donors had supplied to Tanzanian hospitals.

Basically the ORET project did not distort the domestic market or displace the efforts of local entrepreneurs; instead was seen as complimenting other efforts.

Coherence

The transaction fitted well within the Dutch bilateral aid programme in Tanzania. This is illustrated by the fact that staff of the Netherlands' Embassy participated in the Steering Committee of this project. Sectorwise it was less coherent with export promotion policies, although it is worth noting that PMS is very successful in East African countries and this might also have positive consequences for other exports of medical equipment from the Netherlands.

8.5 Tanzania Airport Rehabilitation

Introduction and Methodology

This case study evaluates the rehabilitation of the Julius Nyerere International Airport (JNIA) in Dar es Salaam, Tanzania, which was co-funded by a grant of the Dutch ORET programme. The project intended to fully rehabilitate the airport, aiming to meet the minimum safety requirements of the International Civil Aviation Organization (ICAO) and facilitate growth in passenger and cargo transport. The project consists of six related transactions, as listed in Table A – 9. The first transaction is not part of the evaluation case study since it falls outside the research period.

Table A – 9 Airport Transactions in Tanzania

Transaction	Applicant	Name	Timeframe	Amount (in EUR)	ORET Grant (in EUR)	Grant %
A04058	Rosenbauer	Fire & Rescue systems	1999-2003	2,210,000	1,326,000	60.0%
TZ00035	Strukton	Power Supply	2003-2009	6,424,840	3,279,801	51.0%
TZ00039	Interbeton	Rehab. Phase 1	2004-2009	22,956,332	11,165,778	48.6%
TZ00108	Howard Humphreys	Rehab. Supervision	2006-2010	845,000	431,770	51.5%
TZ00114	Interbeton	Rehab. Phase 2	2008-2012	26,333,770	14,557,061	55.3%
TZ00119	Sir Frederic Snow	Airport Management	2009-present	590,727	443,045	75.0%
Total				**59,360,669**	**31,203,455**	**52.6%**

The *ex post* evaluation of this project is based on desk research (the ORET archives but also additional reports and data provided by TAA and other stakeholders), interviews with stakeholders in Tanzania and site visits to the airport. The remainder of this summary is structured along six evaluation criteria: efficiency, effectiveness, sustainability, relevance, additionality and policy coherence.

The Client

The Tanzania Airport Authority (TAA) is a semi-autonomous government executive agency under the Ministry of Transport. It owns, operates, manages, develops and maintains all airports and airstrips on the mainland of Tanzania. TAA was mandated to represent the Government of Tanzania in the implementation of the ORET project.

Efficiency

All outputs (pavement of runways, taxiways and aprons; airfield ground lighting system, artificial wetland, sewerage system, power station) were realised as agreed, with only minor changes. The airport was rehabilitated with safe and reliable infrastructure and systems. At transaction level, outputs were realised within the time specified and budget allocated, but at project level efficiency was suboptimal due to adjustments in scope and design and postponements of investments that led to delays and increases in costs.

The closure of ORET for LDCs in 2001 also caused delays because no budget could be made available for the resident engineer until 2005 after the programme reopened for LDCs.

Effectiveness
The project's theory of change assumes the transactions would contribute to ICAO certification, airport growth and enhanced connectivity, and ultimately to income and employment, in Tanzania and the Netherlands. JNIA now meets ICAO 4E requirements, which is essential for an international airport and the connectivity of Tanzania.

Improved infrastructure and systems facilitated a significant growth in passengers (+61% between 2007 and 2013) and a modest growth in cargo (+17.6%). JNIA grew faster than many other airports in Africa. Connectivity improved, with several new airlines opening offices in Dar es Salaam and more frequent flights between JNIA and other airports.

Stakeholders observed an increase in local income and employment, with more business at the airport and very likely also in Dar es Salaam. The project has been a success for the Dutch applicant (BAM/Interbeton) which was responsible for the rehabilitation: it has since had three new projects in Tanzania.

Sustainability
The technical sustainability of the project is assured by the transfer of knowledge on how to maintain civil avation systems and the possibility of ordering spare parts. To assure the future use of the systems, it is vital that suppliers and the customer (TAA) continue to invest in maintenance.

The financial sustainability of the project is relatively good, due to good development prospects for the airport and the strong commitment of the national government to allocate funds for recurrent cost financing. The strong involvement of the government in the development and management of JNIA adds to the financial and institutional sustainability of the project but also limits the freedom of movement for TAA.

Relevance
The project was highly relevant not only for JNIA, in view of the airport's problems at the beginning of the project and its development potential, but also for Tanzania's aviation industry, with JNIA as the main source of income and important hub for international flights.

Additionality
The additionality of the ORET funds in this project is substantial, despite the fact that the government or another investor would have been willing to invest in the airport and despite some displacement of jobs due to the 60% Dutch input requirement.

Policy Coherence
The coherence with Tanzania's policy is high. The government supports investments in airports and the position of JNIA as domestic and international hub is indisputable.

8.6 Guatemala Champerico Fishery Port

Introduction and Methodology
This section describes the results of the evaluation of the Champerico fishery port construction in Guatemala. The project consisted of two related ORET transactions: GT00017 and GT00018 (see Table A – 10). Champerico, located in the Department of Retalhuleu at about 225 kilometres from the capital, is a small coastal town with an estimated population of around 31,000 at the time of construction of the fishery port. The Dutch maritime and dredging company Van Oord constructed the port for artisanal fishermen and semi-industrial fishery (GT00017); the Dutch consultancy company Royal Haskoning was responsible for supervising construction activities and providing technical assistance under a separate contract (GT00018). The main Dutch stakeholders in the project were FMO and its successor ORET.nl as administrators of ORET, the Netherlands' Embassy in Guatemala, the applicants (Van Oord NV and Royal Haskoning BV), and Witteveen & Bos, the company hired by FMO to assess the technology and do the usual price/quality check.

The main Guatemalan stakeholders were the fishermen of Champerico as ultimate users and beneficiaries of the port and the intended client of the project, *La Empresa Portuaria Nacional de Champerico* (EPNAC), which falls under the *Comisión Portuaria Nacional* (an advisory committee of the *Ministerio de Comunicaciones, Infraestructura y Vivienda*). A complicated institutional structure was set up for the application and the port operation. The UN organisation IOM acted as intermediary to handle the non-grant financing and co-sign the commercial contracts with Van Oord and Royal Haskoning as contracting authority, while EPNAC signed as owner of the port.

The explicit objectives of the construction of the fishery port in Champerico were:
- Enhance the business climate.
- Offer port facilities for the artisanal fishing boats and the semi-industrial fishery fleet based in Puerto Quetzal.
- Increase the safety of the artisanal fishermen.
- Increase the catch and quality of the landed fish.
- Increase local employment related to the port and maritime activities.
- Stimulate tourism by attracting activities for international sport fishing enthusiasts.

The evaluation of these transactions included a review of project documentation and other relevant literature, an analysis of relevant statistical information, focus group discussions with community organisations and interviews with key stakeholders both in Guatemala and in the Netherlands. Two missions were conducted, in April and June 2014.

Efficiency
Preparation. In 2004, Van Oord and Royal Haskoning started with a feasibility study for the construction of a fishery port in Champerico. Van Oord had negotiated directly with the government of Guatemala and invited Royal Haskoning to join the feasibility research. The feasibility study, co-financed by a PESP subsidy from the Dutch Ministry of Economic Affairs, was completed in June 2005. The study explains that given the wave-driven sand transport

and the need for protection of the port area, the design of the maritime structures should take into account two types of waves: (i) swell waves generated by storms and/or hurricanes out at sea; and (ii) waves generated by local winds. Swell waves were considered the most important type of waves influencing the sand transport near the coast of Champerico and hence most relevant for the design of the port and the breakwaters. The initial draft design was based on an estimated net annual average sediment transport of between 130,000 and 190,000m3 in west-north-westerly direction.

Application. The applications for ORET financing were submitted to FMO on 13 October 2005 and elaborated into a Grant Proposal by the FMO investment officer. After *due diligence* missions by FMO the decision to award the grant was made on 21 June 2006; the grant agreements for the two transactions with Guatemala were signed on 7 September 2007, and so were the commercial contracts. Because the port was to be constructed in a coastal area under mangrove forest, the government of Guatemala did a prior environmental impact assessment (EIA), which was in turn reviewed by Royal Haskoning on behalf of FMO. The studies resulted in additional financial resources being allocated for (re)planting mangroves on an larger area than initially proposed (20 hectares instead of 4.9 hectares) to compensate for the environmental damage from clearing the mangrove forest.

The transaction experienced several delays in the appraisal phase because extensive discussions took place on the (pre-)conditions of the project in order to obtain legal cover for single sourcing in the tender process. This cover was required for several reasons. One was because in Guatemala such cover is mandatory when deviating from nationally prescribed international competitive bidding (ICB). Another reason was the complicated arrangements for the non-grant financing of the project that were to be funded from the government of Guatemala's budget. The most difficult condition was obtaining the required confirmation from an authorised governmental entity that ICB was waived and that single sourcing for Van Oord and Royal Haskoning was allowed. Ultimately, parliamentary approval was sought and obtained, to avoid potential discontinuity of the project after the presidential elections. The sources of finance for the transactions are shown in the table. The amounts include the contingencies for unforeseen expenditures of EUR 799,812 for GT00017 and EUR 58,633 for GT00018.

Table A – 10 Financing Structure of Champerico (amounts in EUR)

ORET Transaction	ORET Grant	Non-ORET Financing	Contract Sum
GT00017 (Van Oord)	8,405,217	15,311,536	23,716,753
GT00018 (Royal Haskoning)	586,129	645,156	1,231,285
Total	**8,991,346**	**15,956,692**	**24,948,038**

Implementation. Construction works started officially on 15 January 2008, after some preparatory activities carried out in the preceding months. The "first phase" of the port was formally completed in July 2009, when Van Oord handed over the works to EPNAC. In August 2009 the port was officially inaugurated. Most of the works specified in the bill

of quantities contract had been carried out by that time and realised on schedule and within budget (including the use of the contingency). Some works were executed in a different way than specified in the contract, in accordance with an agreed variation to the bill of quantities: this occured especially after the problem of excessive sedimentation surfaced. Supervision of construction activities also started in January 2008. The budget for supervision was EUR 803,178 (+ EUR 40,159 contingencies). Technical assistance started in April 2009 and continued for about 18 months. The budget for technical assistance was EUR 369,474 (+ EUR 18,474 contingencies).

Unfortunately, the works did not result in an operational port as planned, due to the problem of excessive sedimentation. The most important reason for not achieving the agreed outputs is that no detailed design based on a rigorous sedimentation study was ever made. The conceptual design of the port presented in the feasibility study was not followed by a detailed design before the works started in 2008. Instead, the works were based on the conceptual design, which regrettably was based on erroneous assumptions about the maximum amount of sand transportation. Apparently, the detailed design was seen as a collective responsibility of all stakeholders. Royal Haskoning and Van Oord were not made responsible for ensuring this, nor did they see it as their individual responsibility. The other stakeholders in the project, first FMO and later ORET.nl as administering agencies and EPNAC as client, failed by omission because they had not spelled out this step as a milestone in the commercial contracts and grant agreements and neither did they object to the works starting in the absence of a detailed design based on a rigorous study of actual sand transportation. If there had been a detailed design of the port that had taken better account of a worst case scenario with a much higher sedimentation rate and that had properly dimensioned the port with larger and differently positioned breakwaters, the project could have resulted in a well-functioning port, though one that would still have required regular dredging.

The implementers and beneficiaries differ in their opinion about the quality of the technical assistance delivered. Royal Haskoning reported achieving the TA's goals but the fishermen interviewed were of the opinion that the training was delivered in a hurry and considered it to be generally of low quality. The TA also included a study trip to various fishery ports in Peru for a number of EPNAC staff at managerial level, which the participants reported as being useful. TA to EPNAC was organised according to a model of a functioning port, which was never applicable. The early problems of the silting up of the port resulted in EPNAC being unable to generate port revenues from the semi-industrial fleet, which in turn led to most of its technical staff being fired. The most important reasons for not achieving the agreed outputs, however, are that a detailed design of the port was never made and that the conceptual design of the port, which was used as if it were the detailed design, was based on erroneous assumptions about the rate of sand transportation.

Because some works were realised in a different way than specified in the design, the actual price/ quality ratio of particular works may differ from the corresponding ratio assessed by Witteveen & Bos and, hence, the one underlying the bill of quantities attached to the contract with Van Oord. Since the project as a whole has not resulted in a properly functioning fishery port, the only conclusion possible is that its price/quality ratio is extremely high.

Effectiveness

The fishery port was intended as an alternative for the very unsafe pier used by the artisanal fishermen, but the port was enlarged to accommodate other fishery-related activities. In general terms, the project can be regarded as a failure. It resulted in a safer but malfunctioning port for artisanal fishermen only that is not accessible for semi-industrial fishing vessels and other commercial vessels. Even the option of repairing the decrepit pier – though not a good solution from a safety point of view – is no longer available because of the great amount of sedimentation caused by the works.

When it became clear that the port was not going function properly, several attempts were made to rectify the situation. A sand-retaining groyne was built on the first bend of the breakwater, financed from the contingency of the ORET transaction, the entrance channel was dredged, and later on the groyne was extended. None of these has resulted in a structural solution for the problem of the underestimated sedimentation. As a result of the high sedimentation, the number of artisanal fishing boats using the port has fallen and the semi-industrial fishing fleet has continued to land their fish at Puerto Quetzal. An unintended consequence of the ORET-financed works is the unexpected increase in tourism due to the extended beach. Nevertheless, the general perception of the people of Champerico is that development has stagnated, with the result that social problems have worsened and there is more migration and juvenile delinquency. The government has not only lost its financial investment in the failed port but has also seen its credibility with the citizens of Champerico severely eroded. Though reliable employment figures are lacking, it is likely that the net employment effect of the port has been negative. Fishing activities have been affected, which has decreased the capacity of the local economy to generate employment from fishery-related activities and led fishermen to give up their occupation because of debt. Whereas formal attribution is not feasible, there is little doubt that several of these negative effects are clearly related to the intervention.

Sustainability

As a result of the technical assistance provided by Royal Haskoning, EPNAC was better equipped to manage the port. Since the project did not result in a well-functioning port, EPNAC was not able or did not need to fully use the improved management capacity for the operation and maintenance of the port. Technically, the project is not sustainable. The excessive sedimentation was caused by an error in the conceptual design of the port, which was incorrectly based on a long-term average of the net wave-driven sand transport, and the omission of a detailed layout design based on associated detailed sedimentation modelling studies. It is difficult to understand why calculations were based on net sediment transport instead of on the gross transport (which is in the opposite direction), why a worst case scenario of above-average sediment transport was not taken into consideration and why construction by Van Oord supervised by Royal Haskoning started in the absence of a detailed design. Apparently no one felt responsible for making a detailed design or checking that this important condition had been fulfilled.

Van Oord and Royal Haskoning continued with the preparation of additional works (the “second phase of the construction”). These activities were not a part of the ORET

transaction, were financed by Guatemala and comprised, among others things, the elaboration of a sand transportation study. When it became clear that the port was not going to function properly, several attempts were made to rectify the situation. But these attempts did not offer a structural solution for the problem of sedimentation.

The figures in the feasibility study of 2005 and the grant proposal of 2006 indicate that the project would be financially feasible with the ORET grant only if the government were to continue subsidising the operation of the port. So, one of the conditions for the grant was that the Ministry of Finance would transfer the required subsidy annually in the years following the construction of the port. However, the income generated by the project itself has fallen far short of what was foreseen, because the semi-industrial vessels cannot make use of the port and the artisinal fishermen have had their harbour fees cancelled as a form of compensation. Hence financially, the project is not sustainable.

Mangrove reforestation was done some 40 to 60 kilometres north of Champerico and implemented as foreseen but opinion is divided about whether it was done properly.

Relevance

The construction of the port in Champerico had a high political profile. It was one of the four *Mega Proyectos* that in his election campaign President Óscar Berger had promised to realise if elected. The project would have been relevant if it had functioned properly. All interviewed stakeholders agree on this. It was thought that the project would improve the welfare of the artisanal fishery community and simultaneously develop conditions to stimulate high-end tourism (sport fishing) and other service and commercial activities. In reality the project implemented a poor design. A comparison of costs and benefits suggests that had the port been properly designed and dimensioned, however, it is most likely that it would not have been economically feasible and financially sustainable

Additionality

The ORET grants appear to have been additional in the sense that the project would not have been implemented without the financial contribution from ORET. Whereas there is no doubt about the additionality of the ORET grant, there are no indications that the contribution from ORET had a catalytic effect in generating other development finance or activities building on the port.

Coherence

The fishery port in Champerico was a project that the ORET programme could support. Other supportive instruments came together in this project. The ORET application was co-financed with a PESP subsidy in order to prepare the feasibilitystudy.

On the drawing table the project was coherent with the focus of Dutch development policy on private sector development while protecting the environment. Reforestation of the mangroves was in line with the ORET policy guideline that any environmental damage should be mitigated and compensated. It was also coherent with the large environmental

programme being carried out in Guatemala by a group of donors under the leadership of the Netherlands.

Royal Haskoning is still involved with the authorities of Champerico in seeking potential solutions but so far none not been found. To summ up, we paraphrase a remark made by one of the interviewees, that – with hindsight – the project resulted in “the port that should not have been constructed there”.

8.7 Bangladesh Railway Signalling Equipment

Introduction and Methodology

The Railway Signalling and Interlocking project in Bangladesh (BD00023) involved the design, supply, installation, testing, and commissioning of a signalling and interlocking system for seven train stations of the Ishurdi-Jamtoil section of Bangladesh West Zone railway. The total transaction value amounted to EUR 8,493,474. The definitive ORET grant was EUR 4,246,737: a grant element of 50%.

The direct objectives of the project were to increase the transport capacity on this railway section and to reduce the number of accidents on this track, which fitted nicely into the government's policy of upgrading the country's railway system. Vialis BV was the Dutch applicant for this transaction executed on a turnkey basis for the client Bangladesh Railway (BR). Vialis designed the signalling and interlocking system, supplied the equipment and trained a number of BR employees to operate it. Vialis cooperated closely with BR during the course of the transaction, from design to commissioning.

The evaluation of this case study is based on relevant documents from the ORET archives, documents and data provided by Bangladesh Railway and other authorities in Bangladesh, an interview with the Dutch supplier in March 2014 and site visits to several railway stations in Bangladesh.

Efficiency

Application. The preparation of the transaction started in 2000. The period from the date of submission of the application to the grant agreement was more than three years, which is longer than the average time taken for the application procedure for an ORET grant. The main reason was the two revisions of the transaction at the instigation of the government of Bangladesh. Due to the depreciation of the Bangladesh taka vis-à-vis the euro, the local currency equivalent of the euro-denominated transaction increased considerably during the processing period of the application. As a result the project substantially exceeded the originally allocated budget. Despite the delays, representatives of BR, the client of the project, expressed their satisfaction with the flexibility of the ORET programme, which gave them the opportunity to complete the required bureaucratic procedures on their side. The contract between Vialis and the Government of Bangladesh was agreed through direct negotiations. It was approved by the Executive Committee of National Economic Council (ECNEC), Bangladesh's highest authority for approving development activities.

Implementation. During implementation some differences of opinion about technical specifications surfaced between the contractor and the client. Some elements of the design turned out to be inappropriate for the local conditions. These differences were resolved, but this took more time than foreseen in the original planning of the project. Representatives of BR mentioned that BR is very satisfied with the equipment and the services provided. BR is also very satisfied with the quality of the training provided by Vialis. Apart from some initial delays, the transaction was implemented smoothly: starting on 21 August 2003 the works were finished on time, on 4 August 2005.

Price/quality ratio. A price/quality check of the application done by an independent price consultant (SGS) resulted in minor downward revisions in the prices of some components (mainly reduction of profit) of the transaction. Although satisfied with the equipment and services delivered, BR noted that the transaction was more expensive than similar transactions with other suppliers. For other sections of the railway system BR uses three types of signalling equipment funded by various donors. According to the Project Director of BR, the Dutch supplier was more expensive than Korean or Indian companies, sometimes even twice as high for certain components but overall the quality of the Dutch equipment was much better than that of other suppliers.

Training. Four engineers were sent to the Netherlands for training in the use of the installed system. Upon return they were assigned to check the functioning of the system installed between Jamtoil and Ishurdi on a rotational basis. Engineers trained in France are currently in charge. Because the Vialis equipment does not need much maintenance, the operation and maintenance of the system installed in the seven stations is now being executed by station masters and technical workers. In total 48 persons received local training in project maintenance and operation through the ORET project: 20 technical officers of BR were trained in signal system maintenance and 28 station masters received training in signal system operation and supervising the signal system.

Effectiveness

Transport capacity. An Impact Assessment Study undertaken by the Implementing Monitoring and Evaluation Department (IMED) of the Ministry of Planning mentioned that as a result of this project, passenger trains can now run on the section more safely at a maximum speed of 60 to 70 km/hour. This is much faster than the speed of 15 km/hour before the project. Interviews during the evaluation confirmed this observation. Since completion of the project, the number of trains that use the Jamtoil–Ishurdi section has increased substantially. Information collected from station masters shows that before the improvements were introduced, on average eight to ten trains passed per day in each direction. Now, 15 trains pass in both directions. Of the total of 30 trains, 25 are passenger trains and five are goods trains. This information was validated with the handwritten administration books at the railway stations. These figures also show that the transport of bulk commodities through these sections has increased considerably.

Safety. Since no national statistics are collected on accidents for each station and railway section, the information about the Ishurdi-Jamtoil section is based on interviews with the station masters and their own administration. A significant reduction of accidents has been achieved during the last decade. Station records show the number of accidents decreased after the installation of the new system. The information book of the Chatmohar rail station shows only two accidents in the 2005–2011 period whereas the book in the Ullahpara station reports no accidents and the Ishurdi station records only one accident during the same period. It is unclear whether the reduction in the recorded accidents can be attributed to the ORET transaction. The trend of decreasing railway accidents is also observed in the national statistics of Bangladesh Railway, except in 2005, when there was an increase in derailments, though not in the section targeted by the project.

Sustainability

Financial. BR performed reasonably well during the first decade of the post-liberation period, within the constraints of its inherited structural and physical constraints. But today the rail sector performs less well due to inefficiencies that reduce the productivity of both physical and human capital. This adversely affects BR's financial performance. Nowadays BR receives most revenues from passenger travel, whereas in the 1970s earnings from freight transport were much more important. It is expected that the gap between earnings and the resources needed for investments and maintenance of existing infrastructure will not disappear in the near future. This might have a negative effect on the future maintenance of the project equipment.

Technical. In spite of BR's financial constraints, the interviews with the station masters and the field visits made clear that all equipment installed under this project is operational and well maintained by the assigned engineers and station managers. According to the Project Director there were some problems with maintenance in the two years after completion of the works, because the local agent of Vialis did not perform as expected. After Vialis took over, the problems were solved. After the warranty period some equipment was replaced due to lightning damage, but this was considered to be normal. BR also replaced copper compounds between stations on the section with optical fibre. In addition, BR bought spare parts from Alstom but still needed some spare parts from Vialis. BR tried to contact Vialis but did not succeed, which points to a coordination problem between BR and Vialis. The engineers responsible for the section stations are very satisfied with the Vialis equipment since it does not require much maintenance, at least much less than the old system. BR employees are handling the equipment properly and efficiently, which enhances the sustainability of this equipment.

Institutional. BR is a big state company responsible for the country's railway system, including the section between Jamtoil and Ishurdi. All procedures to manage the system are in place but the company faces serious financial constraints. This particularly affects investments in new and modernised operational systems and other capital goods. The company also suffers from a lack of coordination between different departments, which is partly caused by the division of the network into eastern and western parts. The supervision and management of this section appears to be well organised and executed. The responsible staff officers have been trained, either during the implementation of the project or in BR's own training institute.

Environmental. The backup batteries have already been replaced in all stations because five years have passed since installation. We observed that the equipment was very clean and seemed to be working well. Air conditioning was installed in the technical room housing the equipment. The generator room also looked clean: everything is functioning properly, according to the BR employees.

Relevance

The project has contributed to more efficient and safer transport of both passengers and goods in the targeted railway section, which is an essential link between the eastern and

western zones in Bangladesh. The project complemented the recipient country's economic and development plans. Transport demand in Bangladesh is expected to increase considerably in the coming years, largely because of increasing demand for freight transport and greater personal mobility. The opening of the Jamuna Bridge in June 1998 removed one of the major national transport obstacles in the country. The ADB-financed rail link projects and the planned construction of the Padma Multipurpose Bridge are expected to allow further growth in domestic freight and passenger movements. When this occurs, the contribution to the modernisation of the seven stations from Jamtoil to Ishurdi towards the transport efficiency of the railway linkages between the eastern and western zones will be even more significant.

Additionality
The ORET transaction fitted well in the overall strategy to improve the railway system in Bangladesh. This strategy ranks high on the development agenda of the Government of Bangladesh, and fitted well in the Five-Year Plan of the Planning Commission of the Government of Bangladesh. It is financially supported by International Financial Institutions, such as the ADB, EBRD and bilateral donors. Given this situation it is likely that a similar transaction would have taken place with financial support from other sources. However, it is doubtful whether this alternative financing would have been provided at similar "soft" conditions to those in the ORET programme.

Policy Coherence
Although the transaction contributed to the economic performance of the country, it was somewhat isolated from the Dutch aid programme to Bangladesh at that time. It was not an important component of the Dutch trade policy towards Bangladesh. The non-grant funding of the transaction was provided by a Dutch bank and insured by Atradius DSB against the credit risk.

8.8 Indonesia Rehabilitation of Power Generators

Introduction and Methodology
This section summarises the results of the evaluation of two ORET-supported transactions in Indonesia in the power generation sector. The transactions (ID00025 and ID00030) involved the rehabilitation and upgrading by the company Wärtsilä of respectively four and eight diesel power plants in various regions, management support and training of local staff of the national electricity company (PT PLN). Total transaction values amounted to EUR 13,734,000 (ID00025) and EUR 11,098,329 (ID00030). Grant amounts were respectively EUR 4,606,000 and EUR 3,792,065 which makes the grant element of both transactions 34%. As part of the Technical Assistance Facility both transactions included a credit line of about EUR 1 million to buy spare parts for a period of five years after completion.

The main objective of the transactions was to improve the electricity supply in a number of remote areas in Indonesia, both quantitatively and qualitatively. This was to be done by improving the energy yield of the existing power plants and reducing their environmental pollution burden such as spills, odour and noise nuisance (internal and external). Another objective was to enhance the sustainability of the plants through the transfer of knowledge and know-how about the technical and financial management of diesel power stations. The evaluation of this case study is based on relevant documents from the ORET archives, documents and data provided by the Indonesian authorities and other stakeholders in the country, various publications on the electricity sector in Indonesia, interviews with stakeholders in the Netherlands and Indonesia in the period April–August 2014 and field research during on-site visits to the power stations in Kalimantan.

Efficiency
Application. In 2003 it was decided that the first transaction qualified for support from the environmental facility MILIEV, which at that time still existed within ORET. The reasons were that the application was particularly focused on reducing the fuel consumption and the environmental burden of the power plants. The application procedure took about 11 months, which is relatively short compared to the average ORET application. The second application in 2004 was, apart from increasing the number of power plants (eight compared to four in the first transaction), identical to the first. Nevertheless, the approval process took longer, because it was decided to wait for the results of the first transaction. In both transactions the power plants involved were selected jointly by PT PLN and Wärtsilä on the basis of the need for rehabilitation (the technical status of the plant) and expected demand for electricity in the relevant regions. The applicant and the officials of the client interviewed in Indonesia regarded the application process as reasonably efficient.

Procurement. PT PLN headquarter was responsible for the procurement process, including the negotiations about technical specifications, prices and financing. It followed the company's internal procurement regulations, which comply with the national public procurement regulation in Indonesia. This allowed PT PLN to appoint a single supplier, Wärtsilä Nederland, to rehabilitate the engines. Since the engines that were to be rehabilitated came from Stork Wärtsilä, PT PLN did not have much choice in the matter. In collaboration

with its local subsidiary, Wärtsilä was able to provide and guarantee the availability of fully compatible components and spare parts and to mobilise the technical expertise for the rehabilitation. Other diesel engine suppliers could not match this offer. According to the staff of PT PLN the prices of the rehabilitated engines were acceptable, also taking into account the favourable grant component of ORET. In addition, Wärtsilä could provide training and technical assistance focused on particular features of the engines. The prices of the various transaction components were also checked by an independent expert hired by FMO, who concluded that they were indeed market-compatible.

Implementation. It took about two years to finalise the first transaction; this was in line with the planning in the original application. The transaction was completed and achieved its expected outputs on schedule and within budget. The execution of the second transaction (ID00030) was delayed for a couple of months because the specifications of the supplies were changed during its implementation. The client stated that it was satisfied with the rehabilitation process and the engines rehabilitated by Wärtsilä. The company provided the agreed training, which contributed to enhancing the knowledge and skills of technicians and local staff in the PT PLN regional office. It not only familiarised local technicians with the details of the engines but also provided participants with the skills required to maintain and repair the engines if needed. The client considered this to be very relevant for the operation of the plants in remote areas.

Effectiveness

PT PLN confirmed that the rehabilitation of the engines succeeded in enlarging the capacity and improving the performance of the local PT PLN power stations. As a result the engines have considerably improved the reliable supply of electricity in the relevant regions. The training has resulted in better maintenance of the engines, which has contributed to a more stable electricity supply to end users in the regions. The rehabilitated engines also perform better in terms of fuel consumption and environmental impact. Regular air emission checks by PT PLN Regional Office confirm that the rehabilitated engines produce less emissions and stench than before and that leakage of oil has also been reduced. At the end of 2014, ten years after completion of the first transaction and five years after the second, ten of the 12 plants were still operational. However, some engines in operation are not being fully utilised. In Sumatra (Aceh, Jambi, and Lampung) the rehabilitated engines are currently not used as the main source for electricity production but are only used to meet demand from residential areas during peak hours. The engines in Kalimantan, Maluku, and Papua are still used as the main source for electricity production in the area. Two rehabilitated engines are out of service: one in West Kalimantan and one in Maluku.

Large differences exist in power generation between the eastern and western parts of Indonesia. PT PLN has established an interconnected grid system in the western part of the country (Sumatra–Java–Bali), whereas in east Indonesia (Kalimantan, Sulawesi, Nusa Tenggara, Maluku, Papua) no interconnected grid is in place yet and therefore these regions rely fully on power generation by local plants with diesel engines. The rehabilitation of the Stork Wärtsilä diesel engines in Kalimantan, Maluku, and Papua has therefore been very beneficial to the people in these areas.

Wärtsilä has a long-term business relationship with PT PLN. The ORET transactions supported a continuation of the relationship, which is evidenced by follow-up orders that are not only related to the rehabilitation of diesel engines but are also in the field of alternative energy sources. A threat to Wärtsilä as an important supplier of PT PLN has been the decision of the Board of Directors of PT PLN to also purchase engines and spare parts from non-original equipment manufacturers (non-OEMs), if available. For the purchase of the main engines and related spare parts, PT PLN will continue to rely on OEMs, such as Wärtsilä.

Sustainability

Financial. PT PLN periodically allocates funds for regular maintenance of the engines and training of field technicians. The allocated budget is sufficient for regular maintenance of the engines. The rehabilitation of the engines saved PLN money because the plants now operate more efficiently, as a result of lower production cost and higher utilisation rates. However, electricity prices are determined by the Government of Indonesia and are lower than what they would be if based on the real costs of production and investment. The government covers the difference with subsidies to PT PLN.

Maintenance. The transactions included a warranty for the rehabilitated engines from the subsidiary company PT Wärtsilä Indonesia. After the warranty time lapsed, PT PLN purchased major spare parts from Wärtsilä, making use of the credit line for this purpose. Today PLN pays from budget funds earmarked for maintenance. PT PLN staff confirm the company's strong commitment to maintaining the engines because the local power plants in the targeted regions are the main source of electricity. For regular maintenance, PT PLN uses staff trained as part of the transactions. Technical and operational staff at the power plants have to participate in regular training courses at the PT PLN training institute.

Environmental. For environmental reasons the Government of Indonesia has decided that in the near future the supply of electricity should be based upon local natural resources, particularly on renewable energy resources. It will therefore discontinue the development of new power plants with diesel engines. As soon as non-diesel power plants have been built in remote areas or when these areas are connected to the national grid, diesel power plants will become redundant. This policy will also apply to the plants rehabilitated with ORET support.

According to PT Wärtsilä Indonesia, Wärtsilä has anticipated the new Indonesian energy policy by introducing and selling non-diesel engines to PT PLN. As a consequence, future transactions of Wärtsilä and PT PLN will probably consist of supplying other types of power engines but not the related spare parts and servicing of the existing diesel engines.

Relevance

The rehabilitation and upgrading of the power plants was on the List of Medium-Term Planned External Loans and Grants, the so-called Blue Book. As such the transactions were in line with Indonesia's medium- and long-term development plan.

Additionality

In order to maintain electricity supply in remote areas, PT PLN would have had to rehabilitate the engines even in the absence of ORET funding. The alternative would most likely have been a less extensive and sophisticated rehabilitation than the current 12 plants that were rehabilitated with these ORET transactions. The rehabilitation of the power plant engines would then have been financed from internal PLN funds earmarked for maintenance or for investment. Since the financial capacity of PT PLN was and is limited, the scope of the operation would probably have been much smaller.

Coherence

The transactions also fitted well within the Netherlands' policies to strengthen its economic relationships with emerging markets. Indonesia is one of the larger countries of Southeast Asia and considered to be an important business partner. These transactions can be seen as an example of expanding the trade and investment relations with this country.
The transactions were also focused on reducing the environmental burden of energy production, which is consistent with the increasing worldwide interest in environmental issues and Dutch environmental policy.

8.9 Indonesia Tender and Buoy Vessels

Introduction and Methodology
This section summarises the results of the evaluation of an ORET-supported transaction (ID00250) to Indonesia. The transaction involved the supply of one Buoy Tender and three Aid Vessels, training and technical management support and the transfer of knowledge to a local shipyard. The vessels are used for placing, maintaining and replacing navigational buoys in sea lanes. The definitive transaction amount was EUR 35,983,719 while the definitive ORET grant was determined at EUR 13,524,329, bringing the grant element to 38%. The transaction aimed to increase the safety of sea lanes in the Indonesian archipelago, with a view to reducing the number of accidents and increasing the transport capacity of these sea lanes. In addition, it intended to transfer shipbuilding knowledge to a local ship-builder.

The evaluation of this transaction is based on relevant documents from the ORET archives, documents and data provided by the Indonesian authorities and other stakeholders in the country, various publications on “Aids to Navigation” in Indonesia and interviews with stakeholders in the Netherlands and Indonesia in the period April–August 2014.

Efficiency

Application. The first application for ORET support for this transaction was submitted in June 2003 but cancelled for administrative reasons in Indonesia. Our respondents stated that the delay of the first application was not due to the ORET application procedure but was related to the fall-out from the tsunami in December 2004. The application was resubmitted in June 2005 and the grant agreement was signed in August 2006. The ‘second’ application was processed more efficiently, in both the Netherlands and Indonesia. The Dutch company Damen was the only bidder in the tender procedure to offer that the vessels be assembled in Indonesia. The Indonesian government made this a requirement in order to facilitate the transfer of shipbuilding technology. The Indonesian price check, which is part of the Indonesian procurement regulations, showed that the transaction costs were reasonable. This conclusion was confirmed by the price check done by ORET.nl.

Implementation. The construction and assembly of the vessels were implemented as planned. PT Dumas in Surabaya was selected as the local shipyard to assemble the vessels. On May 29, 2009 two aid tender vessels were ready and handed over by the Minister of Transportation to the Navigational Units in Ambon(Maluku) and Pontianak (West Kalimantan). On 14 November 2009, the Minister of Transportation handed over the third aid tender vessel to the Navigational Unit in Palembang and the buoy tender vessel to the Navigational Unit in Surabaya.

The end user of the vessels, i.e. the Directorate of Sea Transportation of the Ministry of Transportation, acknowledged its satisfaction with the vessels. It is pleased with the quality of the vessels and the services provided by Damen, the training of the crews and technicians and the after-sales services. The transaction included transfer of technology from Damen to the local shipyard during the shipbuilding process. The Damen team of supervisors, who

were stationed in Surabaya, was responsible not only for ensuring the vessels would be constructed to meet the standard specifications but also for this being done on time. In the process the team transferred technical know-how on shipbuilding and coached the local management staff on maintaining discipline and work ethics.

Effectiveness

The vessels replaced four of the total fleet of 62 navigational vessels that are currently operational in Indonesia. These new vessels are considered the flagships of the navigational fleet. They increased the country's navigational capacity by being faster and having less downtime in maintenance than the ships they replaced. Yet according to representatives of the Ministry of Transportation, the replacement of one buoy tender vessel and three aid tender vessels is far from sufficient to meet the required navigational capacity of Indonesia. The marking of sea lanes remains inadequate, with insufficient and unmaintained navigational buoys still resulting in accidents at sea. Unfortunately, there is no data available for assessing the improvement in sea lane marking and maintenance of buoys resulting from the new navigational vessels. And even with sufficient data it would be virtually impossible to attribute improvements to this particular ORET-financed transaction, because the new vessels are being used for the same purposes as the old ones. In addition to their navigational duties the vessels perform other maritime tasks occasionally assigned by the government, such as evacuating victims of sea accidents and carrying out search and rescue missions. Unavailability of data on the permitted speed in and transport capacity of Indonesia sea lanes also prevented further assessment of the transaction's impact in those areas.

The training, coaching and technological transfer by Damen have contributed significantly to the introduction of the latest shipbuilding technology in Indonesia. It has also contributed to a more organised work ethic and attitude at the PT Dumas shipyard. As a result, the confidence of potential clients in the ability of PT Dumas to produce high quality vessels and deliver them on time has increased considerably. This is reflected in an increasing number of national and international orders since the transaction was finalised. Several respondents mentioned that the transaction has contributed significantly to the increase in local shipbuilding activities because national and international clients show more trust in PT Dumas' ability to produce high quality ships on time. This change also seems to have increased the willingness of national banks to finance these activities. Previously, banks considered national shipbuilding to be an industry to be avoided because of its high default risk on loans due to its limited and unstable demand, partly related to the quality of the supply.

After the transaction, Damen continued its business relationship with Dumas. Facilitated by the favourable trade and investment policies of Indonesia that exempt the production of exportable goods from paying value-added taxes on imported materials, Damen found it profitable to outsource some of its vessel production to PT Dumas. This collaboration, however, ended in 2012, since Indonesia no longer exempts Damen from paying the value-added tax on imported items. According to Damen this made the outsourcing of shipbuilding activities to the Indonesian shipyard no longer profitable.

Sustainability

Financial. Regarding financial sustainability, our respondents at the Ministry of Transportation do not foresee a problem of maintaining the future operation of the vessels. In order to guarantee the sustainability of the vessels the Ministry of Transportation includes their maintenance cost in its annual budget proposal to the Ministry of Finance. So far, the requested allocations have always been approved in the recurrent cost budget, because the government considers an up-to-date 'aids to navigation' system to be a high priority for a maritime nation such as Indonesia.

Maintenance. The respondents also affirmed they had not encountered any significant problems in ensuring maintenance and finding the appropriate spare parts for the vessels if needed, because of the good after-sales service provided by Damen and the excellent technical and business collaboration between Damen and the local shipyard PT Dumas.

Environmental. The new vessels have been constructed using the most recent technology, resulting in them being more fuel-efficient and less polluting than the vessels they replace. Regrettably, no data is available on fuel savings or other environmental performance indicators. The grant agreement with the Indonesian government required the old ships to be scrapped in an environmentally safe way. According to the information from the client this has indeed been done.

Relevance

All Indonesian government programmes and projects financed by external loans and grants have to fit into Indonesia's medium-term development plan. The provision of replacements of the navigation vessels was indeed included in the so-called Blue Book, a formal document listing the development priorities of the Government of Indonesia; this confirms the relevance of the transaction.

Additionality

At the time of the application several alternatives were available as a source of financing for the replacements of the navigation vessels, such as soft loans from Japan, China and Denmark. The financing and other conditions offered by ORET were, however, considered the most beneficial for Indonesia, not only because of size and concessionality of the ORET grant but, probably more importantly, because of the willingness and ability of Damen to assemble the ships in Indonesia and transfer shipbuilding technology. The Indonesian authorities mentioned that in the absence of the ORET grant they would have bought the vessels from another country that also offered 'soft' financing, simply because Indonesia needed the vessels.

Coherence

The transaction fitted well with the Netherlands' policies to strengthen its economic relationships with emerging markets. As one of the larger countries of Southeast Asia, Indonesia is considered to be an important trade and investment partner. The non-grant funding came from a Dutch bank that was insured by Atradius DSB against the risk of non-payment.

8.10 Sri Lanka Strengthening the Emergency Response Network

Introduction and Methodology

This ORET-supported transaction (LK00074) to Sri Lanka involved the supply of vehicles, equipment, training and technical management support to strengthen the emergy response capacity of Sri Lanka. The total transaction value amounted initially to EUR 26.6 million and the definitive ORET grant was determined at EUR 10,634,771, bringing the grant element of the transaction to 35%. The project was executed by the Dutch company Search and Rescue Systems BV (SAR Systems).

The transaction targeted the upgrading of the Disaster Response Network in Colombo, the Western Province and selected Urban Areas in Sri Lanka by strengthening 18 fire brigades in 15 cities of Sri Lanka. The project's objectives were the reduction of human loss and injuries and material damage from emergencies. National data show that trauma, mainly from accidents and emergencies, is a leading cause of hospitalisation in Sri Lanka, with most victims being productive adults. A reduction should contribute to enhancing the economic potential of the country. The impact is likely to be higher for communities that face multiple disaster risks, such as the coastal urban areas.

The evaluation of this case study is based on relevant documents from the ORET archives, documents and data provided by the Sri Lankan authorities and other stakeholders in the country, various publications on the emergency support services in Sri Lanka, interviews with stakeholders in the Netherlands and Sri Lanka in August–October 2014 and site visits to ten firefighting stations in Sri Lanka in August–October 2014.

Efficiency

Application. The period from submission of the application to conclusion of the grant agreement took about ten months, which compares favourably with other ORET applications. The transaction fitted well within the criteria for ORET support. In general, the expertise for dealing with complex emergencies (e.g. disasters) was considered to be inadequate in Sri Lanka. The project addressed part of the problem by training local fire brigades to handle complex emergencies and by providing them with the necessary equipment and vehicles. In addition, it supported the Colombo Municipal Council Fire Brigade in setting up a Special Response Unit (SRU) to assist local fire and rescue brigades in the event of major disasters. In order to cope with the lack of training facilities, the project also set up a national Emergency Response Training Centre (ERTC) in which SRU employees provide training.

The grant agreement with Sri Lanka was concluded after having secured additional conditions from the Government of Sri Lanka, among others additional annual financial contributions to the fire stations to cover running costs, safeguards for long-term sustainability and guarantees for adequate staffing of the stations. SARS received the contract by direct award. An independent consultant, SGS, evaluated the price/quality ratio of the transaction and concluded that the total transaction price was in accordance with market levels.

Financing. When the transaction was processed, the grant share was initially determined at 40% of the transaction value of EUR 26,500,000. The non-grant part was covered by a commercial credit provided by Rabobank International and insured by Atradius DSB. At the request of the Government of Sri Lanka the regular financing structure of an ORET transaction combining a commercial loan and grant was transformed into a concessional loan made concessional by providing an interest subsidy. The interest charged on the commercial loan (in fact the discounted value of interest payments over the loan period of ten years with a grace period of two years) was paid from the grant. This raised the total transaction amount to EUR 30,799,189 and reduced the definitive grant element to 35%.

Implementation. The project was implemented during the period November 2006 to November 2011. The project has provided the foreseen equipment and vehicles to 18 fire stations. The final allocation of the vehicles was decided in consultation with the Sri Lankan Ministry of Provincial Councils and Local Government, taking into account the nature of the locations of the fire stations and the availability of funds. The Training Centre was established and the planned 32 trainers have been trained. All senior crew members have received basic training and several others received special training at the newly established training centre. The planned number of senior crew members received training during their study visit to the Netherlands. With a few exceptions, all new recruits to the fire stations have received basic training. Training is also provided in-house now by the trainers trained in the Training Centre. Overall the project was implemented on time within the foreseen project period and within budget.

Effectiveness

From a technical point of view the vehicles supplied to the 18 fire stations are of good quality. However, the project provided the same type of vehicle to all stations regardless of the geography of the location. Some fire station staff officers mentioned that not all vehicles are ideal for the local conditions. This is particularly the case for stations located in the hilly areas with very narrow roads, such as Dambula and Kandy. As a result, here the vehicles cannot be utilised as effectively as planned. These local conditions should have been considered better at the time of procuring the vehicles and distributing them to the various locations.

It was also noted that the communication equipment provided was rather vulnerable to the hot and humid weather conditions in Sri Lanka. From time to time this hinders the communication with the communication tower in the fire station, particularly in the western regions. Another problem mentioned was that the Defence Authorities did not authorise the communication towers to use the necessary bandwidth and frequency to operate the communication equipment because of the prevailing civil war situation in Sri Lanka at the time. Fortunately the end of the civil war has improved this situation.

The new training centre has provided either on-site training or training at the centre. The trained personnel have the right attitude and expressed their satisfaction about the training received. Since the project ended the training centre has continued to offer training, but now only for a fee. The municipalities are, however, somewhat reluctant to pay for the

training and have not allocated funds for further training. As a result the centre is used less effectively than foreseen during design.

The project was also expected to generate more than 1000 new jobs in emergency response. Notwithstanding the written guarantee of the Ministry of Provincial Councils and Local Government to that effect, all fire brigades suffer from a lack of personnel at the moment because funds are lacking.

Although the project showed some limitations in implementation, it has certainly contributed to an enhanced capacity of the emergency response network. It has done this by providing vehicles and equipment to 18 fire stations, training the staff in operating the equipment and reacting efficiently and quickly to emergency situations. The project further trained instructors who are currently training local fire station staff and established a training centre that offers the opportunity to follow up. In general, the reaction capability of a number of fire brigades to respond to emergency situations has increased. However, the fulfilment of important financial and institutional conditions for an effective operation in the future is in doubt, as the Government of Sri Lanka has not ensured the provision of adequate funds and new manpower, even though this was promised in the grant agreement.

Sustainability

Financial. Most local administrations in Sri Lanka do not have sufficient revenues and depend on budgetary allocations from the central government. The revenues of the local governments are low in relation to the demands from the public for government services, including for emergency services. The Colombo municipality is an exception. As the largest and the best financed municipality it is also able to collect more revenue from companies and institutions than all other local government units. In most of the 18 fire stations the shortage of finance for operation and recurrent costs has resulted in a shortage of required staff, maintenance and repairs.

Maintenance. The shortage of funds has had a direct impact on the maintenance of vehicles and equipment. In several fire stations some vehicles and equipment need repair but do not get it. In addition to the financing issue, the local agent and the supplier of the vehicles and equipment are not well equipped to attend immediately to all repairs if needed. The lack of appropriate spare parts is another issue for some vehicles that are not models commonly used in Sri Lanka. During the visits a couple of issues related to maintenance were mentioned by respondents. The imported vehicles do not always confirm to the standards these manufacturers usually maintain for Sri Lanka. Therefore the agents of the manufacturing companies cannot always immediately attend to needed repairs when breakdowns happen. For example, in two fire stations visited one of the vehicles could only be used for limited tasks due to wear and tear in the brake pump which could not be immediately repaired. Similar servicing problems were mentioned for other vehicles with repair needs.

Institutional. The fire brigades are only a small unit of the local government institutions which seem to pay little attention to operational aspects and the personnel of the fire brigades. In an appreciable number of municipalities the importance of keeping their fire

brigade prepared and ready to respond to emergencies is not the main priority. Political authorities and senior officials at local level are not everywhere fully committed to the services of their fire brigade or show a lack of understanding for the need to maintain emergency response readiness. This is reflected, for example, in the fact that local governments sometimes requisition fire brigade equipment and vehicles for other purposes.

Fire fighting vehicles also need access to working hydrants to be effective. Many cities have not placed high importance to installing sufficient hydrants. This problem was reported in Colombo, Negambo and Galle as well as in other municipalities. To illustrate: Kandy city now has only three hydrants in place compared to six in the past. Of the municipalities visited, only Nuwara Eliya indicated having five functioning hydrants, all above ground.

Most firefighters and service crews, while appreciating the contribution of the project, pointed out that fire brigades do not receive sufficient attention from local authorities. They feel underappreciated and blame a lack of funds and a lack of understanding of their importance for this. Therefore, staff of all fire brigades visited were of the opinion that the fire brigades would be better off if they were under the aegis of a department of the Ministry of Provincial Councils and Local Government. Such institutional embedding would also enable the staff to have a career path, the lack of which is currently a source for disappointment and demotivation. Many officers have served for over 20 years in the same rank and position.

Relevance
During recent decades Sri Lanka has experienced huge natural disasters. After the dramatic consequences of the tsunami in 2004, discussions were held with international donor organisations about strenghtening the response capability, but these talks mainly focused on short-term actions rather than the comprehensive approach followed in this project. Upgrading the national system of emergency services was considered urgent and was recognised by the government of Sri Lanka, which gave it a high priority.

Additionality
It is doubtful whether a project of this size, comprehensiveness and coverage of regions would have taken place without the financial support from the ORET programme, especially in the light of the financial constraints facing the government of Sri Lanka at the time.

Coherence
The application was preceded by a feasibility study financed from the PESP programme. Non-grant funding for the transaction was insured by Atradius DSB against the risk of non-payment of the debt service, but at a certain cost. The project did not complement other Dutch development cooperation instruments directly nor did it contradict such instruments. The fact that the contractor continued its activities in the country after the project shows that the transaction was to some extent in line with the policy of Dutch trade promotion in Southeast Asia.

The primary reason for Sri Lanka seeking a blended loan from ORET lies in its IMF arrangement at the time, which limited the contracting of foreign commercial loans by the country. The

blended format of the ORET loan may have been a short-term answer to circumvent that obstacle but it raised the total financing cost of the transaction considerably. It did so because the insurance premium was now calculated over the full amount of the transaction, while bank fees and interest payments were also charged over the higher loan amount. It also raises the question of whether a possible undermining of the debt sustainability framework of IMF / World Bank for Sri Lanka was facilitated.

8.11 Sri Lanka Upgrading Vocational Training Institutes

Introduction and Methodology

This section reports on the findings of the evaluation of the ORET transaction "Enhancement and Up-grading of Technical Education Project at SLIATE for the Ministry of Education, Sri Lanka" (LK00081). It involved upgrading the technical education at two Advanced Institutes of Technology (AIT): the Matakkuliya AIT and the Labuduwa AIT. Both institutes are branches of the Sri Lanka Institute of Advanced Technical Education (SLIATE), which is the recipient organisation. The ORET transaction was part of a larger project that included several components, among them the supply of equipment, development and introduction of an updated curriculum, technical assistance and training and civil construction. The total value of the project was EUR 21.9 million. The ORET-funded transaction amounted to EUR 10.9 million and received a grant of EUR 4,176,000, bringing the grant element to 38%.

The direct objective of the project was to increase the number of graduates with Higher National Diplomas in Engineering (HNDE) at the two supported AITs by a total of 150 per year. The project focused on three areas: Civil Engineering, Mechanical Engineering, and Electrical Engineering. Gemco International Engineering & Construction was the Dutch applicant; it supplied machinery and equipment, developed and introduced a new curriculum and provided training and technical assistance. Gemco worked together with MCE Industrietechnik Linz GmbH, a large engineering and training company from Austria. MCE was not only involved in the construction activities but also provided part of the training and technical assistance that was funded from the Dutch contribution. This included the long-term local presence of an MCE staff officer.

The evaluation of this case study is based relevant documents from the ORET archives, documents and data provided by the Sri Lankan authorities and other stakeholders in the country, various publications on technical education in Sri Lanka, interviews with stakeholders in the Netherlands and Sri Lanka done in August–October 2014 and site visits to the recipient institutes in the country in August and September 2014.

Efficiency

Application. The period from the date of submission of the application (2 October 2006) to the grant agreement (7 November 2008) was about 25 months. It took 14 months to approve the application (on 17 December 2007) and another 11 months before the grant agreement was signed. The grant agreement required the Government of Sri Lanka to guarantee to provide sufficient funds to cover operational costs in order to safeguard sustainability and to ensure that the two AITs would be adequately staffed.

The contract between Gemco and the Government of Sri Lanka was agreed through direct negotiations conducted by a Cabinet Appointed Negotiation Committee. The prices of the various components of the transaction were checked by an independent evaluator (SGS), which concluded that they were fair. Since the transaction delivered the equipment and

services on time and according to the specifications of the contract, it can be concluded that the overall contract price for this transaction was reasonable. The external audit of the transaction approved the actual expenses and concluded that more than 50% of the *inputs* originated from the Netherlands.

Financing. At the request of the government of Sri Lanka it was decided that part of the ORET grant (EUR 1,451,000) would be used to cover the interest payments on the loan for the ORET transaction. RaboBank International provided the commercial loan, to the amount of EUR 8,175,000. The non-ORET part of the project, worth EUR 11.0 million, was financed by the Östereichische Kontrollbank (ÖKB).

Implementation. Upgrading of the school buildings at the ATIs was one of the project activities. In addition the project supplied and installed equipment. The AITs also received additional student accommodation, to be able to enrol more students. All construction works and the supply and installation of teaching equipment were completed on time. The construction activities were mainly financed from the funding made available by the Austrian government. The general observation of the Heads of Departments of both AITs was that the project executed the transaction efficiently despite some delays in customs clearance of imported materials.

The project also provided technical assistance to enhance the training skills of the local staff and to instruct them in the use of the new equipment. This was given in tandem with the Austrian assistance, since part of the equipment was procured with the Austrian funding. The course materials were updated and the laboratories and workshops were equipped. The AIT staff highly valued both the outputs and the technical assistance. According to the management of the ATIs, all technical staff are now competent to handle the installed equipment and machinery.

Teacher training was provided at Birmingham University in the UK for five lecturers from Matakkuliya AIT and four lecturers from Labuduwa AIT in their respective fields: civil, electrical and mechanical engineering. Training was also offered in-country to the remaining professional staff to orient them and develop their competence in using the installed equipment and machinery. Six of them were also trained in Indonesia. Both AITs reported that the training received was very useful and relevant. Unfortunately, three trained technicians have since left the institute for more lucrative employment elsewhere.

Under supervision of Gemco and MCE the curriculum in all three fields was upgraded in 2010 by a team of experts from the University of Moratuwa, Sri Lanka. The new curriculum replaces the older versions at Matakkuliya AIT, but Labuduwa AIT introduced the new curriculum for the advanced courses for the first time. The two institutes reported that the new curriculum is more market-oriented and demand-driven. They are confident that the graduates will be better equipped and match the requirements of the job market. However, international accreditation of the curriculum has not taken place yet due to the high cost of the accreditation procedure.

Effectiveness

The AITs started the new programmes only in 2012. In view of the length of the upgraded courses (3.5 and 4 years) the numbers of graduates from the first enrolment are not known yet, except for the students who graduated from Matakkuliya AIT in September 2014. Therefore the performance of the project in terms of student numbers is mainly based upon the numbers of enrolled students. The annual intake of Matakkuliya AIT increased by approximately 60 students. Labuduwa AIT did not offer HNDE courses previously and therefore the current enrolment can be fully attributed to the project. The enrolment for the first year of the new courses in this AIT was 191, of which 27% were female, and increased to 228 in 2014. It is expected that given this increase in the number of students following the upgraded courses, the primary objective of delivering 150 new HNDE graduates each year will most likely be achieved. Since the start of the new courses 810 students have enrolled at Labuduwa AIT alone. As a result of the success of the programme, the AITs now face capacity problems. Due to the lack of sufficient workshop space Labuduwa AIT had to reject over 500 applicants who wanted to follow the HNDE courses. The Matakkuliya AIT could have enrolled more students if more hostel accomodation had been available for them.

The direct result of the project in terms of employment was the creation of 25 new jobs at the two institutes. The project's long-term impact will depend on the number and employability of the HNDE graduates, where they will be employed and what they can contribute to the economic development of Sri Lanka. Matakkuliya AIT reported that 100% of its HNDE students who graduated in 2014, are now employed and also could find a job immediately. Labuduwa AIT is yet to deliver its first batch of graduates in 2015 but expects that all its graduates will also be able to find employment immediately. This expectation is based on the increasing employment opportunities for skilled professionals in the fast expanding services and industrial sectors in Sri Lanka and the demand from abroad. The country benefits indirectly from the remittances of the engineers who have moved abroad and who are expected to return with more experience.

Sustainability

Staffing. Though the project fitted in and complemented the recipient country's economic and development plans, the main threat is the shortage of well-trained and motivated teachers. Both AITs are currently understaffed. To guarantee the sustainability of the project, additional staff need to be hired and trained. A serious constraint is that well-qualified technicians can receive better salary and benefits elsewhere than at the AITs. In addition, most HNDE graduates seek overseas employment. AIT directors mentioned that the government is now looking into this matter and is expected to propose a new salary scheme for the AITs, comparable with that at universities.

Maintenance. Although the technical officers have been trained to maintain the equipment and machinery, a number of them have left their jobs permanently or have taken advantage of the option for government employees to go on long-term leave to work abroad. Here the issue is again the low salary offered to such officers. As a result, the quality of the training may be threatened if the machinery and equipment are not maintained up to the expected levels.

Financial. All recurrent expenditure is covered by the government for now but there are two challenges for the financial sustainability of the activities. One is the cost of future replacement of the equipment and the other concerns the systemic changes the government introduced in 2012. The financial contributions from the government are not sufficient to build up reserves needed for later replacement of the equipment. Another problem – probably temporary – is that the institutions are not yet familiar with the new government's budgetary framework that was revised in 2012. Both AITs complained about shortcomings in this framework, such as the lack of maintenance agreements.

Relevance

The education sector and vocational training are among the top priorities of the Government of Sri Lanka. This was confirmed by the letter from the Sri Lankan Ministry of Finance and Planning, indicating that the project is a priority for the Ministry of Education. Technical Vocational Education and Training (TVET) is confronted with the challenge of matching the speed of technological progress in industries and other countries. There is a clear need for technically skilled workers in Sri Lanka. The project responded to this situation by upgrading the two institutes for technical education by providing better educational equipment and an upgraded curriculum and trained the relevant staff in these institutions. After the project was completed, the first batch of graduates entered the labour market. Their rapid recruitment is an indication of the relevance of the changes introduced by the project.

Additionality

The ORET transaction contributed to a larger project, which also recived financial and material support from Austria. Given the high priority given to the project by the government and the contribution from Austria, it is likely that a similar transaction would have taken place with financial support from other donors. However, it is doubtful whether this alternative financing would have been available at similar "soft" conditions as provided by the ORET programme. Given the IMF conditions on foreign debt financing at the time of the identification of the project, it is certain that the financing of the activities at commercial conditions would not have been feasible.

Coherence

The transaction fitted well with the Netherlands' policy to strengthen its economic relationships with emerging markets. Sri Lanka is one of the fastest growing countries of South Asia and therefore potentially an important business partner. Although education is a priority sector for most aid programmes, this was not the case for the Dutch bilateral aid programme for Sri Lanka.

As with the other evaluated transaction LK00074 the primary reason for Sri Lanka to seek a blended loan from ORET lies in its IMF arrangement at the time, which limited the contracting of foreign commercial loans by the country. The blended format of the ORET loan may have been a short-term answer to circumvent that obstacle but it raised the total financing cost of the transaction considerably. It also raises the question of whether a possible undermining of the debt sustainability framework of IMF / World Bank for Sri Lanka was facilitated.

Annex 9 List of Interviewees

This list is presented per group of stakeholders. Interviewees in the case studies are listed in the case study reports that will be published on the IOB website.

Table A – 11 List of Interviewees

Ministry of Foreign Affairs	
Michiel Bierkens	Former first Secretary for Development Cooperation Accra, Ghana
Robert Dijksterhuis	Former Head of the Entrepreneurship and Business Development Division of the Sustainable Economic Development Department (DDE/OB)
Annelies Drost	Policy Officer, International Enterprise Department of the Directorate-General for Foreign Economic Relations (DGBEB)
Neera van der Geest	Former Policy officer at DDE responsible for the ORET programme
Andri van Mens	Policy officer at DDE responsible for the ORET programme
Peter Stoffelen	Coordinating Policy Advisor DDE
Johan Veul	Former Senior Policy Advisor / Specialist Infrastructure Development DDE
Ewout de Wit	Former Policy officer at DDE responsible for the ORET programme
Thijs Woudstra	Former Policy Officer at International Enterprise Department of the Directorate-General for Foreign Economic Relations (DGBEB)
ORET.nl	
Catrinus Jepma	Member of the approval committee ORET.nl
Lennart Konijnenberg	Manager of Operations ORET.nl at PwC
Anton Koonstra	Partner at PwC responsible for the ORET programme
Frans van Loon	Member of the approval committee ORET.nl
Mart Nugteren	Former Head of ORET assessments at NEI and Ecorys
Awa Veldkamp	Operational Manager, ORET.nl at PwC
Friso Wiegman	Fund Manager of ORET.nl at PwC
Paul Wijmenga	Partner at Ecorys responsible for the ORET programme
FMO	
Ruurd Brouwer	FMO – Director of Investment and Mission Review
Robert Voskuilen	FMO – Head of IDF
Roel Vriezen	FMO – Manager, business development ORET programme
Frederik Jan van den Bosch	FMO – Former Project manager, ORET programme

Other Ministries and Semi-Government Entities	
George Aardenburg	Atradius DSB – Senior Claims & Recoveries Manager
Remmelt Tempelman	Atradius DSB – Manager, Regional Team
Gert Bouwman	Atradius DSB – Manager of Business Control, IT, Reporting & Documentation
Oscar Boot	Atradius DSB – Underwriter/ Regional Specialist Africa
Hannie Weringa	Advisor, International Positioning & Economic Development – RVO
Pieter Dijkstra	Information Specialist – Ministry of Economic Affairs
ORET Stakeholders in the Netherlands	
Jaap Wientjes	Director of Finance for Projects
Robert Poelhekke	Former Team leader / Senior Advisor International Economic Affairs VNO/NCW / Director, Netherlands Association of International Contractors (NABU)
Linda van Beek	VNO-NCW – Manager of International Economic and Social Policy
Applicants of rejected transactions	
Rien Veldhoen	Research & Development – Van den Herik Kust- en Oeverwerken BV
Rob van de Veerdonk	Chief Marketing & Sales Office – EWT

Annex 10 Nederlandse samenvatting

ORET in een notendop

Het ORET-programma (Ontwikkelingsrelevante Export Transacties) is een subsidiefaciliteit van het ministerie van Buitenlandse Zaken sinds 1979. De officiële doelen van het ORET-programma zijn geëvolueerd en regelmatig aangepast aan veranderende opvattingen en politieke voorkeuren van opeenvolgende regeringen t.a.v. ontwikkelingssamenwerking en private sector ontwikkeling in ontwikkelingslanden. In de periode 1999-2007 werden beleidswijzigingen doorgevoerd in de programmadoelen, de lijst van kwalificerende ontwikkelingslanden, de beoordelingscriteria van aanvragen, de aanbestedingsprocedures, de subsidiepercentages, het minimum aandeel van Nederlandse goederen en diensten, en opties om de duurzaamheid van transacties te vergroten. Na 2005 verschoof het doel van ORET van de bevordering van ontwikkeling en werkgelegenheid naar de bevordering van duurzame economische ontwikkeling en versterking van het ondernemersklimaat in ontwikkelingslanden.

ORET ondersteunde commercieel niet-haalbare investeringen (transacties) in openbare infrastructuur in ontwikkelingslanden op diverse terreinen zoals aanleg van wegen, bruggen, havens en drinkwater-voorziening, openbaar vervoer, ziekenhuizen en onderwijsvoorzieningen. ORET co-financierde de kosten van een transactie tot 50% (voor Minst Ontwikkelde Landen: MOL's) en 35% (voor andere kwalificerende ontwikkelingslanden, niet-MOL's), tot een maximum van EUR 45 miljoen per transactie. Het combineerde ORET-schenkingen met niet-schenkingsmiddelen in een gemengde kredieten programma. Ontvangende overheden moesten zelf de restfinanciering regelen via commerciële leningen, uit eigen budgetmiddelen of van andere donoren. Daarmee kregen de ORET-schenkingen een hefboomwerking. ORET ondersteunde deze vorm van gemengde financiering door de eenmalige financierings- en verzekeringskosten van de commerciële leningen uit de schenking te betalen, tot een aandeel van 75%. Gedurende een korte periode eind jaren tachtig werd ORET gewijzigd in een concessioneel leningenprogramma. Daarbij voorzag de Nederlandse Investeringsbank (NIO) ontvangende landen van lange termijn zachte leningen voor het volledige transactiebedrag. Dit maakte commerciële exportkredieten en kredietverzekering overbodig. Het bespaarde de begunstigden bankkosten en exportkredietpremies maar de hefboomwerking van de ODA-schenkingen ging hiermee verloren. Nadat ORET snel overtekend raakte, werd het in 1990 teruggebracht naar een gemengde kredietenprogramma wat het bleef tot het einde.

Box 1 *Het dienen van twee doelen met één instrument*

Gedurende zijn bestaan heeft het ORET-programma altijd een tweeledige doelstelling gehad: i. bevorderen van ontwikkeling in ontvangende ontwikkelingslanden; ii. bevorderen van Nederlandse export. Ontwikkeling en exportbevordering van Nederlandse bedrijven zijn twee aparte beleidsdoelstellingen die niet noodzakelijkerwijs samenvallen, kunnen conflicteren en hun eigen specifieke aanpak vereisen. Om politieke redenen en om het Nederlandse bedrijfsleven meer bij ontwikkelingssamenwerking te betrekken, zijn deze twee doelstellingen samengevoegd in de uitvoering van de ORET. Het ministerie probeerde de tweeledige doelstelling te realiseren door kwalificatiecriteria toe te passen voor aanvragen en binding van de aanbesteding via regels voor het minimale Nederlandse aandeel in transacties in niet-MOL's. Meestal was een Nederlands bedrijf de initiatiefnemer, zelfs in het geval van ongebonden transacties voor de MOL's. Activiteiten werden gefinancierd uit de begroting voor OS omdat de schenkingen beschouwd werden als ODA. Hoewel Nederlandse exportbevordering in 2005 officieel werd afgeschaft als doel, heeft ORET altijd – tussen de regels – deze dubbele doelstelling gehouden. In vergelijking met andere donoren was Nederland niet uniek als het ging om het verschil tussen het officiële beleid en de praktijk. Uit de economische literatuur is bekend dat binding van hulp negatieve consequenties kan hebben voor ontvangende landen, omdat het kan leiden tot hogere prijzen en suboptimale allocatie van middelen. Bovendien wordt de effectiviteit van binding van hulp door donoren als instrument voor exportbevordering ook in twijfel getrokken. Dit rapport beoordeelt de resultaten van ORET op beide doelen.

De aanbestedingsregels van ORET zijn altijd aanleiding geweest voor discussie. Het Nederlandse bedrijfsleven drong aan op volledige besteding van de aangeboden middelen in Nederland (binding) in de verwachting van maximale exportorders. Daarentegen legde de ontwikkelingssamenwerking-sector (OS) de nadruk op volledige ontbinding en maximale impact vanuit een ontwikkelingsperspectief (zie box 1). ORET ging van start als een volledig gebonden hulpprogramma dat alleen toegankelijk was voor aanvragen van Nederlandse bedrijven. Deze praktijk werd lange tijd voortgezet. Later konden ontvangende landen het aanbestedingsregime kiezen dat in overeenstemming was met hun eigen wet- en regelgeving ten aanzien van overheidsbestedingen. De praktijk in niet-MOL's bleef echter in de meeste gevallen directe toewijzing aan het Nederlandse bedrijf dat de aanvraag had ingediend. In oktober 2001 werd ORET gesloten voor MOL's als gevolg van een OESO/DAC-besluit om hulp aan deze categorie landen volledig te ontbinden. In 2005 werd ORET weer geopend voor MOL's maar nu als een ongebonden instrument. Internationale aanbesteding (*international competitive bidding:* ICB) werd pas na mei 2006 voorgeschreven voor deze groep landen.

Het ORET-programma is in de loop der jaren beheerd door verschillende uitvoerende organisaties, i.e. de ministeries van Economische en Buitenlandse Zaken tezamen, FMO en ORET.nl. Alle hanteerden een 'pijplijn' aanpak bij de beoordeling van aanvragen en wezen

financiering toe op basis van “wie het eerst komt, die het eerst maalt”. In augustus 2007 werd het ORET-loket gesloten voor nieuwe aanvragen. In 2009 werd ORET opgevolgd door een nieuwe (ongebonden) infrastructuurfaciliteit genaamd ORIO, die op zijn beurt in april 2014 werd gesloten voor nieuwe aanvragen. In juni 2015 opende het DRIVE programma als opvolger van ORIO. De laatste ORET-transactie wordt naar verwachting pas in 2017 afgesloten.

Doel en bereik van de ORET-evaluatie

Deze evaluatie beoordeelt de bereikte resultaten van ORET en de mate waarin het programma zijn geformuleerde doelen heeft bereikt. De evaluatie geeft een verantwoording van het functioneren van ORET in de periode 2007-2012 en de bestede (financiële) middelen. Daarnaast wordt beoogd lessen te trekken voor andere Nederlandse programma’s op het gebied van de financiering van infrastructuur en private sector ontwikkeling in ontwikkelingslanden, waaronder de ORIO-projecten in de pijplijn, het opvolger programma DRIVE en het Dutch Good Growth Fund (DGGF).

Gedurende de evaluatieperiode 2007-2012 werden 86 ORET-transacties afgerond. De meeste daarvan waren na 2000 gestart in de periode dat het programma door FMO werd beheerd. De afgeronde transacties werden uitgevoerd in 10 MOL’s en 16 niet-MOL’s en vertegenwoordigden een gezamenlijke transactiewaarde van EUR 1183 miljoen. In totaal ontvingen de transacties een bedrag aan schenkingen van EUR 528 miljoen en werden ze uitgevoerd door 38 bedrijven. De 53 lopende transacties (gedefinieerd als nog actief zijnde op 1 januari 2013) worden uitgevoerd door 31 bedrijven in 15 MOL’s en 12 niet-MOL’s. Het gaat hier om een totaal transactiebedrag van EUR 968 miljoen. Tezamen zullen de lopende transacties naar verwachting een totaalbedrag van EUR 409 miljoen aan schenkingen ontvangen. Als de afgeronde en lopende transacties worden samengevoegd in één portefeuille, komen we uit op een totaal van 139 transacties. Al deze transacties zijn of worden uitgevoerd in 20 MOL’s en 20 niet-MOL’s door 56 bedrijven. Het totale schenkingsbedrag voor alle 139 transacties zal naar verwachting uitkomen op EUR 936 miljoen als de laatste transactie is afgerond in 2017. Dan zullen investeringen in openbare infrastructuur voor een bedrag van EUR 2090 miljoen zijn gerealiseerd.

De ORET-portefeuille kenmerkte zich door een concentratie op een relatief beperkt aantal ontvangende landen en uitvoerende bedrijven. Vier van de 40 ontvangende landen ontvingen meer dan EUR 50 miljoen (Ghana, Tanzania, China en Sri Lanka) terwijl 13 landen meer dan EUR 20 miljoen kregen. Eenzelfde concentratie deed zich voor aan de kant van de aanvragers: 24 van de 56 bedrijven hebben meerdere malen gebruik gemaakt van ORET, soms in hetzelfde land (vooral in Ghana, Tanzania en China). De sectoren met de meeste hergebruikers waren drinkwater en sanitatie, gezondheidszorg, transport, scheepsbouw en natte en droge infrastructuur. Deze sectoren vormden de ruggegraat van ORET. De drinkwatersector werd nog populairder na de invoering van de Water Faciliteit binnen ORET in 2005. De meeste hergebruikers waren grote Nederlandse multinationale ondernemingen die vaak al actief waren op de markten van de desbetreffende ontwikkelingslanden.

De belangrijkste onderzoeksvragen van deze evaluatie zijn gericht op:
i. Relevantie en effectiviteit van ORET om duurzame economische ontwikkeling in ontvangende landen te bevorderen en de succes- en faalfactoren om investeringen in openbare infrastructuur te realiseren en in stand te kunnen houden;
ii. De functie van ORET om fondsen te mobiliseren voor de financiering van sociaal-economische infrastructuur in ontwikkelingslanden en andere instrumenten van het Nederlandse buitenlandbeleid aan te vullen;
iii. De rol van ORET in het faciliteren van markttoegang voor Nederlandse bedrijven en bevorderen van duurzame handels- en investeringsrelaties met ontwikkelingslanden; en
iv. De efficiëntie van het beheer van het programma en het toezicht van het ministerie.

Om deze hoofdvragen en andere meer specifieke onderzoeksvragen te kunnen beantwoorden, combineert de evaluatie kwalitatief onderzoek op basis van de studie van de relevante documenten van het programma en transacties en interviews met belanghebbenden met een kwantitatieve analyse van de transacties in de onderzoeksperiode. Deze laatstgenoemde onderzoeksaanpak is gebaseerd op een onderzoek van de portefeuille van alle transacties, inclusief de afgewezen of niet behandelde aanvragen. Tevens is een survey gehouden onder succesvolle en afgewezen aanvragende bedrijven. Er zijn 13 casestudies in zeven ontvangende landen uitgevoerd. Een casestudie kon bestaan uit meerdere samenhangende transacties zoals de vier opvolgende bustransacties in Ghana. Tezamen bestrijken de 13 casestudies 24 afgeronde ORET-transacties. De steekproef van transacties biedt een goede doorsnede van ontvangende landen, sectoren en aanvragers. Vier van de 13 casestudies bevatten ook enquêtes onder eindgebruikers en begunstigden.

De projecten in deze casestudies werden alle ter plekke bezocht. De transacties werden onderzocht en gescoord op verscheidene dimensies van de gebruikelijke evaluatiecriteria van de DAC (efficiëntie, effectiviteit, impact, relevantie en duurzaamheid). Dit werd aangevuld met een beoordeling van de criteria additionaliteit en beleidscoherentie.

Gelet op de beperkingen in beschikbare gegevens en het relatief grote aantal ORET-transacties zijn in deze evaluatie het oordeel over de algemene bijdrage van ORET aan ontwikkeling en het antwoord op de eerste en derde hoofdvraag vooral gebaseerd op de 13 casestudies.

Bevindingen

Relevantie en effectiviteit van ORET

1. *ORET heeft belangrijke obstakels voor ontwikkeling aangepakt door cofinanciering van de bouw en het herstel van openbare infrastructuur in ontwikkelingslanden. In de loop der jaren heeft ORET zich ontwikkeld van een programma alleen gericht op de leverantie van kapitaalgoederen uit Nederland tot een veelomvattend aanbod van infrastructurele diensten, dat bovendien financieel aantrekkelijk was voor de ontvangende overheden.*

Als het grootste Nederlandse private sector ontwikkelingsprogramma heeft ORET tal van activiteiten gefinancierd in vele sectoren met een aanzienlijk rendement in termen van ontwikkeling. Over het algemeen werden de ORET-transacties goed ontwikkeld en efficiënt uitgevoerd. De meeste transacties waren ook redelijk effectief. Vaak was onafhankelijk geverifieerde informatie alleen beschikbaar over de resultaten die binnen de directe invloedsfeer van het bedrijf vielen (outputs) en niet over de effecten op middellange termijn op de eindgebruikers en beoogde begunstigden (outcomes).

De kwaliteit van de geleverde goederen, diensten en werken was goed tot uitstekend. In sommige gevallen leverden de Nederlandse bedrijven unieke goederen die waren aangepast aan de lokale omstandigheden. Vaak was dat niet het geval en ook niet nodig. De meeste transacties waren vanwege hun bescheiden omvang rechttoe rechtaan en hadden ook uitgevoerd kunnen worden door concurrenten uit andere landen. Het totaalpakket van ORET was echter aantrekkelijk voor ontvangende landen om de volgende redenen: (i) de kwaliteit van de geleverde goederen; (ii) de betrouwbaarheid van de leverancier; (iii) de schenkingsgraad van de financiering; en (iv) verschillende opties om de duurzaamheid van de transactie voor een langere periode te vergroten.

2. *Als gevolg van de beleidswijziging in 2005 waarin de doelstelling verschoof naar versterking van duurzame economische ontwikkeling, werd het effect van het programma als geheel voor armoedevermindering afgezwakt, ook al was deze verandering in focus in lijn met de geformuleerde prioriteiten van ontvangende overheden in de aanvragen.*

De aanvragers van alle transacties waren verplicht een prioriteitsverklaring van de ontvangende overheid of het vakministerie te overleggen. De casestudies bevestigen dat de onderliggende ORET-transacties urgente problemen aanpakten. Ze werden beschouwd als een prioriteit door de ontvangende landen en waren – voorzover kon worden vastgesteld – niet aanbodgedreven of bepaald door de aanvragers. Of de transacties in de steekproef ook de hoogste ontwikkelingsprioriteit van de ontvangende overheden vormden of dat de selectie van de ORET-transacties ten koste ging van andere ontwikkelingsrelevante projecten, hebben de evaluatoren niet kunnen vaststellen.

Op een enkele uitzondering na hebben de ORET-transacties uit de steekproef bijgedragen aan de verbetering van de sociaal-economische infrastructuur en het gebruik van de infrastructuur door beoogde begunstigden bevorderd. Ze hebben ook voldoende voordelen opgeleverd op langere termijn voor duurzame economische ontwikkeling en een gunstig ondernemingsklimaat voor de private sector. Transacties op het gebied van openbare

nutsvoorzieningen en 'harde' infrastructuur hebben, zoals verwacht kon worden, meer opgeleverd voor duurzame economische ontwikkeling en het ondernemingsklimaat. De evaluatoren hebben echter niet veel trickle down effecten voor armoedevermindering kunnen vaststellen binnen de onderzochte tijdsspanne. Andere transacties op het terrein van gezondheid en drinkwater hadden een sterker direct effect op armoedevermindering. Het effect van de meeste transacties in de steekproef op armen en vrouwen was neutraal. Sommige transacties hadden directe voordelen voor armen en vrouwen als gevolg van het expliciete ontwerp van de transactie of een gelukkig toeval. In de categorie transacties gericht op duurzame economische ontwikkeling, is in een aantal transacties het criterium van niet-commerciële haalbaarheid niet strikt toegepast omdat andere, minder zachte financieringsbronnen beschikbaar waren. De meeste transacties in de steekproef hebben beperkt bijgedragen aan het scheppen van werkgelegenheid in de ontvangende landen.

Belangrijke redenen voor een verminderde focus op armoedevermindering liggen in de veranderingen in de beoordelingscriteria na 2005 en het gebrek aan concurrentie tussen aanvragen op het gebied van ontwikkelingsrelevantie. De toewijzing van fondsen aan aanvragen, nadat deze bij toetsing aan de minimum criteria hadden voldaan, geschiedde op basis van "wie eerst komt, die het eerst maalt". Deze combinatie van factoren resulteerde in een concentratie van de bestede fondsen in een beperkt aantal landen die niet altijd tot de armste behoorden en ook China omvatte. De daaruit voortvloeiende uitgaven zijn nooit aanleiding geweest voor het ministerie om het beleid bij te stellen. Bewuste pogingen om het aandeel van de MOL's te vergroten na de heropening van het programma voor deze groep in 2005, hadden wel het gewenste resultaat. Dit uitte zich in zowel het aantal aanvragen als het aandeel in de omvang van de jaarlijkse committeringen en uitgaven. Overigens was het grotere aandeel van de MOL's in het totale schenkingsbedrag grotendeels toe te schrijven aan een beperkt aantal grote transacties in Tanzania, Mozambique, Bangladesh, Angola, Soedan, Ethiopië en Gambia die zich vooral richtten op duurzame economische ontwikkeling.

3. *Hoewel de toenemende integratie van technische assistentie, onderhoud en capaciteitsversterking van afnemers vanaf 2005 de duurzaamheid van ORET-transacties duidelijk heeft verbeterd, blijft vooral de financiële duurzaamheid van transacties een uitdaging.*

Verbetering van de technische duurzaamheid van transacties en de institutionele capaciteit van afnemers waren twee kenmerken van ORET die in de loop van de tijd versterkt zijn. De introductie van de optie in 2005 om meer schenkingsmiddelen voor langere tijd beschikbaar te hebben voor deze doeleinden, had een positief effect op het aantal transacties dat extra technische assistentie en onderhoud integreerde. Bij 107 van de 139 transacties vormde technische assistentie en onderhoud een onderdeel van de transactie. Het gebruik van de nieuwe bepaling voor technische assistentie was echter meer gericht op transacties in niet-MOL's dan in MOL's, waar men op het eerste gezicht een grotere behoefte zou hebben verwacht. De technische en institutionele ondersteuning van de afnemers door ORET had een voldoende tot redelijk positief effect op de duurzaamheid van de transacties in de steekproef. Sommige transacties, zoals de leverantie van navigatievaartuigen door Damen aan Indonesië en van bussen door VDL aan Ghana, blonken uit door lokale assemblage en de overdracht van technologie op het terrein van scheepsbouw respectievelijk bussenbouw. Dit had een breder effect op de betreffende industriesectoren in de ontvangende landen.

Versterking van de institutionele capaciteit van de afnemer, wanneer opgenomen als onderdeel van de ORET-transactie, heeft meestal de uitvoering van de transactie versoepeld. Dit wordt o.a. geïllustreerd door het bussenproject in Ghana. Daarin werd als onderdeel van de vier opeenvolgende transacties ook financiering verstrekt voor het aanstellen van een Nederlandse directeur van de opgerichte busmaatschappij voor een periode van zes jaar en voor de versterking van het management. Alle casestudies benadrukken de permanente uitdaging voor de afnemers en de ontvangende overheden om de infrastructuur in stand te houden en een cultuur van regulier onderhoud te introduceren én vol te houden.
De casestudies onderstrepen het belang van de onderliggende contractvorm voor het uiteindelijke resultaat. Zogenaamde turnkey contracten lijken het best te hebben gefunctioneerd. Daarbij heeft het uitvoerende bedrijf de verantwoordelijkheid voor zowel de overdracht van een volledig functionerende infrastructurele dienst als de training van het personeel in de bediening en het onderhoud van de installaties en apparatuur.

De financiële duurzaamheid van de meeste ORET-transacties blijft twijfelachtig. Dit wordt weerspiegeld in de beperkte capaciteit om voldoende inkomsten te genereren of een harde toezegging te krijgen van de overheid om budget te reserveren voor de kosten van uitvoering, onderhoud en reparatie. Het hangt allemaal af van de politieke context. Staat deze de afnemer toe om adequate tarieven in rekening te brengen en daadwerkelijk te innen bij de eindgebruikers ten behoeve van een bedrijfsvoering die op zijn minst de uitvoering en het onderhoud kan bekostigen, of niet? Een alternatieve financieringsmethode kan zijn dat vakministeries prioriteit toekennen bij toekomstige budgetallocaties aan de financiering van de terugkerende kosten van de transactie en de noodzakelijke vervanging van versleten onderdelen. Betaling van een deel van de kapitaalkosten (de rente- en aflossingsbetalingen op de buitenlandse lening) van de infrastructuur door middel van geïnde tarieven voor het gebruik van de infrastructuur in plaats van het algemene overheidsbudget is slechts in een enkel geval voorgekomen. Dit maakt het ook zo moeilijk om de cyclus van afhankelijkheid van infrastructuurfinanciering van donorfondsen te kunnen doorbreken. In dit verband is het enigszins ironisch dat verschillende ORET-transacties eerdere door donoren gefinancierde investeringen in openbare nutsvoorzieningen hebben gerehabiliteerd c.q. uitgebreid.

Mobiliseren van fondsen ten behoeve van sociaaleconomische infrastructuur en coherentie met andere Nederlandse beleidsinstrumenten

4. *De combinatie van ORET-schenkingen met andere financiële middelen heeft een positief hefboomeffect gehad maar ging bij bankleningen wel gepaard met relatief hoge eenmalige financierings- en verzekeringskosten voor de ontvangers. ORET-financiering was over het algemeen additioneel maar had slechts een bescheiden katalytisch effect op follow-up investeringen.*

De financiering van de meeste ORET-transacties in de steekproef was aantrekkelijk voor de ontvangende overheden. De fondsen waren over het algemeen additioneel van karakter. Dit impliceert dat de transacties als zodanig niet waren gefinancierd en tot stand gekomen zonder de ORET-schenking. Ontvangende landen speurden continue de markt voor donorfinanciering af voor de aantrekkelijkste financieringspakketten om hun sociaal-economische infrastructuur behoeften te bekostigen. De nadruk lag daarbij meestal

op de laagste aanschafkosten in plaats van de totale kosten om de infrastructurele diensten te kunnen aanbieden tijdens de gehele levensduur van het kapitaalgoed of de gebouwde infrastructuur. Alhoewel alternatieve financiering vaak wel aanwezig was voor de meeste ORET-transacties, is het onzeker dat dergelijke fondsen een vergelijkbare schenkingsgraad als die van ORET zouden hebben gehad. Een aantal projecten zou ook zonder ORET-steun zijn gerealiseerd maar zeer waarschijnlijk in een lager tempo of kleiner in omvang, zoals bijvoorbeeld in het geval van drinkwatervoorziening. De 50% schenking voor drinkwater-transacties in niet-MOL's was royaal. In termen van toegewezen budgetten heeft dit geresulteerd in de beoogde voorkeur voor één sector, vooral in Ghana.

De hefboomwerking van ORET-schenkingen was een factor 1:2 of 1:3 als gevolg van de combinatie met commerciële exportkredieten, andere donorfondsen of eigen budgetmiddelen van de ontvangende overheden. Dit heeft het bereik van het ORET-programma vergroot, zij het dat dit effect niet moet worden overschat gelet op de bescheiden omvang van de meeste transacties. De mediaan (middelste waarneming) van alle 139 transacties bedraagt EUR 11,8 miljoen terwijl een kwart van de portfolio een omvang heeft die lager is dan EUR 4,5 miljoen. Alhoewel langere termijn exportkredieten de dominante financieringsvorm waren voor de aanvullende financiering, waren ze zeker niet de enige bron. Vooral MOL's hadden ook toegang tot andere bronnen waaronder eigen budgetmiddelen. Echter, daarbij kon soms wel sprake zijn van een vertraging in de overmaking van de eigen betalingen en daardoor van de uitvoering van de transactie.

In het geval van langere termijn bankleningen was verzekering van het kredietrisico van niet-betaling van rente en aflossing vaak noodzakelijk om toegang te krijgen tot deze leningen. Daar hing wel een aanzienlijk prijskaartje aan voor de eenmalige financieringskosten (namelijk bankvergoedingen en verzekeringspremies van Atradius DSB exclusief de rente en aflossingsbetalingen). Of de verzekeringsdekking geresulteerd heeft in lagere rentetarieven voor de verzekerde leningen in vergelijking met onverzekerde leningen, of dat ze toegang verschafte tot kapitaal dat anders niet beschikbaar zou zijn geweest, valt niet vast te stellen. Dit komt door een gebrek aan informatie over de details van de leningscontracten en aan *counterfactuals*. De evaluatoren hebben een aanzienlijke variatie in de eenmalige financieringskosten van de transacties gevonden. Deze kan niet eenvoudig worden verklaard door verschillen in risicofactoren die waren verbonden aan de leningen voor ORET-transacties.

Voor alle 139 transacties (waarvan er 88 waren verzekerd door Atradius DSB) werd in totaal een bedrag van EUR 92 miljoen uitgegeven aan eenmalige financieringskosten (totaal aan verzekerings- en bankkosten). Dit bedrag is betaald uit het totale schenkingsbedrag van EUR 936 miljoen. Samen met een totaalbedrag van EUR 1.154 miljoen aan aanvullende financiering uit verschillende bronnen resulteerde dit in investeringen met een totale transactiewaarde van EUR 2.090 miljoen. De verzekeringskosten voor het kredietrisico die het leeuwendeel uitmaakten van de totale verzekeringskosten en de eenmalige financieringskosten, lijken tamelijk hoog. Die indruk wordt nog versterkt als we bedenken dat over een periode van 23 jaar Atradius DSB slechts één keer een schadebetaling heeft hoeven doen wegens niet-betaling van de schuldendienst (rente en aflossing) op een lening voor een

ORET-transactie in Ghana. Deze schade van EUR 9.956.862 en de nog uitstaande schuld werden in het kader van een multilaterale schuldenregeling in 2004 kwijtgescholden, maar vervolgens volledig verhaald op het budget voor ontwikkelingssamenwerking. In een bijna verwaarloosbaar aantal transacties resulteerden de polissen voor uitvoering-van-werken of kapitaalgoederen in een nettoschade voor een totaalbedrag van EUR 243.982 ten laste van de EKV. De hoge eenmalige financieringskosten ten laste van de ORET-schenking kunnen ten koste zijn gegaan van ontwikkelingsdoelen, zoals bijvoorbeeld onderhoud of aankoop van reserve-onderdelen. Terugblikkend lijkt het erop dat de verschaffing van ORET-gerelateerde exportkredieten en de verzekering ervan tegen het kredietrisico over die periode vrijwel risicoloze activiteiten vormden voor zowel de financierende banken als de verzekeringsmaatschappij Atradius DSB. Deze laatste handelde namens het ministerie van Financiën. Daarnaast kunnen de evaluatoren niet verklaren waarom Atradius DSB, zelfs na goedkeuring van de transactie door ORET.nl, de exporteurs alsnog een risicopremie in rekening bracht over het schenkingsbedrag voor het geval deze de subsidie niet zou uitbetalen. Daarbovenop compenseerde ORET deze risicopremie ook nog eens voor 75% uit dezelfde schenking.

De katalyserende werking van transacties in het bevorderen van follow-up investeringen in andere sectoren of de regio varieerde van bescheiden tot voldoende. Dat beperkte effect spoort met de lage scores van de ORET-transacties in de steekproef voor hun bijdrage aan duurzame economische ontwikkeling en het ondernemingsklimaat. ORET-transacties richtten zich meestal op de aanpak van één belemmering voor private sector ontwikkeling of investeerders, zoals drinkwatervoorziening, openbaar vervoer, opwekking van elektriciteit of logistieke knelpunten. Derhalve lokten de transacties niet vaak direct andere investeringen uit maar speelden ze wel hun (bescheiden) rol in het grotere geheel.

5. *ORET bleef een tamelijk geïsoleerd programma dat niet erg complementair was aan andere Nederlandse hulpactiviteiten. Dit valt vooral toe te schrijven aan het aanvrager gedreven karakter, het centraal beheer van het programma en de uitgebreide lijst van kwalificerende landen.*

ORET had in het algemeen weinig synergie met het Nederlandse hulpprogramma in partnerlanden, met zowel de gekozen prioriteitssectoren in het bilaterale hulpprogramma als andere centraal beheerde programma's gericht op private sector ontwikkeling. Deze laatstgenoemde programma's waren beschikbaar voor een grotere groep ontwikkelingslanden dan de partnerlanden. De mate van coherentie tussen instrumenten lijkt positief te worden beïnvloed wanneer de Nederlandse ambassade ter plekke een pro-actieve rol speelde in de acquisitie van ORET-aanvragen, zoals bijvoorbeeld in Ghana, zelfs indien de ORET-transacties niet aansloten bij de bilaterale OS-sectorprogramma's.

ORET had twee ondersteunende instrumenten om zijn transacties te faciliteren: aan de voorkant het PESP-programma van het ministerie van Economische Zaken om de kosten van een haalbaarheidsstudie te co-financieren en aan de achterkant de verzekeringsdekking voor lange termijn commerciële exportkredieten door Atradius DSB. Op basis van de transacties in de casestudies concluderen de evaluatoren dat de combinatie van ondersteunende instrumenten nuttig is geweest om de uitvoering van ORET-transacties te vergemakkelijken maar niet altijd noodzakelijk was voor zowel het exporterende bedrijf als de ontvanger.

Vergemakkelijken van de markttoegang voor Nederlandse bedrijven

6. *ORET-transacties hebben een beperkte rol gespeeld bij het vergemakkelijken van de markttoegang voor Nederlandse exporteurs en het complementeren van Nederlandse inspanningen op het gebied van economische diplomatie ter versterking van de bilaterale economische betrekkingen met ontwikkelingslanden.*

De meerderheid van ORET-transacties werd uitgevoerd door een beperkte groep Nederlandse en vooral grote ondernemingen die eigenlijk geen ORET-steun nodig hadden om de markt van de desbetreffende ontwikkelingslanden te kunnen betreden. De schenkingsmiddelen waren meestal wel nodig om de specifieke ORET-transactie te doen slagen. De lokale aanwezigheid en kennis van het ontvangende land bij de uitvoerende bedrijven waren zelfs een voordeel bij de uitvoering van complexe infrastructuur transacties, vooral onder moeilijke beleidsomstandigheden met slecht functionerende overheden.

ORET-transacties speelden ook een geringe rol ter ondersteuning van de inspanningen van de Nederlandse economische diplomatie bij de versterking van bilaterale economische relaties. Redenen daarvoor waren enerzijds de beperkte overlap tussen de exportprioriteitslanden van het ministerie van Economische Zaken en de groep van ontvangende landen die kwalificeerden voor ORET (66) en anderzijds de uiterst bescheiden middelen in relatie tot de reguliere bilaterale handels- en investeringsstromen. De mogelijkheid om relatief bescheiden subsidiebedragen te verspreiden over zoveel potentiële ontvangers en het gebrek aan criteria voor de allocatie van middelen over landen of sectoren maakte sturing van de ORET-transacties op prioriteiten sowieso een onmogelijke opgave.

7. *De formele aanbestedingsregels van ORET waren niet doorslaggevend voor wat in de praktijk gebeurde in termen van de concurrentiestrijd in de aanbesteding, het gerealiseerde Nederlandse aandeel in de transactiewaarden en de prijs/kwaliteitsverhouding van de transacties.*

Het overzicht van de aanbestedingsprocedures in de 139 transacties laat geen zwart-wit beeld zien van internationale aanbesteding (ICB) in MOL's en directe toewijzing aan de Nederlandse aanvrager in niet-MOL's. In de loop van het programma heeft de formele ontbinding van ORET in MOL's er toe geleid dat meer buitenlandse bedrijven de ICB-procedures wonnen, i.e. in negen van de 43 transacties en één zogenaamde schakelvennootschap die speciaal was opgericht in Nederland om in aanmerking te komen voor ORET. Het totale aantal buitenlandse bedrijven dat ORET-gerelateerde aanbestedingen won, bleef echter zeer bescheiden: van alle 139 transacties werden er slechts negen door buitenlandse ondernemingen gewonnen (in negen MOL's) en zes door schakelvennootschappen (één in een MOL en vijf in niet-MOL's).

Van de 43 transacties in MOL's werden 18 aanbesteed (via ICB) en 25 direct toegewezen. Van die 18 ICB's werden 11 door Nederlandse bedrijven gewonnen. In de niet-MOL's werden 69 van de 96 aanvragen direct toegewezen aan een Nederlands bedrijf, inclusief 3 schakelvennootschappen. Niettemin organiseerden afnemers in niet-MOL's 27 keer een ICB, hetgeen was toegestaan binnen de regels van ORET als de nationale wetgeving dat voorschreef. Het feit dat Nederlandse bedrijven 26 van de 27 ICB's in de niet-MOL's wonnen, zegt wel iets over de mate van mededinging in de praktijk. ORET lijkt hiermee niet erg af te wijken van de praktijken in vergelijkbare programma's van andere donoren.

De ICB-aanbestedingen leverden uiteindelijk gemiddeld toch een groter Nederlands aandeel op dan de direct toegewezen transacties.

In 2006 schreef de ORET-regeling voor dat de ICB-procedure van de aanbestedingsautoriteit van de ontvanger achteraf getoetst moest worden door ORET.nl. De regeling gaf geen aanwijzing aan ORET.nl om ondersteuning te bieden bij het organiseren van het ICB-proces en de eventuele voorselectie van inschrijvende bedrijven. De evaluatoren hebben weinig informatie kunnen vinden over de mate van ondersteuning door ORET.nl van de aanbestedende afnemers bij ICB's en bij de eventuele voorselectie van aanbieders. De voorgeschreven toetsing op de kwaliteit van de ICB achteraf lijkt in de praktijk marginaal van karakter te zijn geweest. In slechts enkele ICB's werd het resultaat als gevolg van het controleproces verworpen.

Slechts een beperkt aantal ontvangende landen, zoals Ghana, is in staat geweest het aanbestedings-proces en de contractonderhandelingen met de uitvoerende bedrijven volledig op zich te nemen. Sommige afnemers huurden hun eigen internationale prijsconsultant in als ondersteuning bij de contractonderhandelingen. In de meeste transacties in de steekproef beoordeelden de door ORET ingehuurde onafhankelijke prijsconsultants de offerteprijzen als marktconform. In een aantal uiteenlopende transacties werden de prijzen van bepaalde goederen of delen van werken naar beneden bijgesteld als gevolg van de verplichte prijstoets van de consultant of kritisch commentaar van de Adviescommissie van ORET.nl. In de grote meerderheid van de casestudies beschouwden de afnemers de geleverde goederen, diensten en werken als relatief duur maar wel van een hogere kwaliteit dan die van alternatieve leveranciers. In sommige gevallen was het problematisch voor de leverende bedrijven om het voorgeschreven minimum Nederlands aandeel in de transactiewaarde te halen. Dit gold vooral wanneer er maar een beperkt aantal Nederlandse leveranciers beschikbaar was voor bepaalde onderdelen of apparatuur. Bij sommige aanvragen omzeilden de aanvragers de oorsprongsvoorwaarden van ORET door een speciale schakelvennootschap in Nederland op te richten om zo in aanmerking te komen voor ORET-financiering. Beide factoren hebben in de praktijk van de gebonden transacties in een aantal gevallen een vorm van creatieve boekhouding uitgelokt ten aanzien van de oorsprong van bepaalde kostenposten en componenten om zo het minimum Nederlandse aandeel te kunnen halen.

De evaluatoren hebben niet kunnen vaststellen dat de toegepaste ICB's automatisch de beste ontwikkelingsuitkomst voor de beste prijs hebben opgeleverd. Wanneer ook de bilaterale praktijken van andere donoren in ogenschouw worden genomen, concluderen de evaluatoren dat donoren niet opereren op een vrije markt met volledige mededinging om openbare infrastructuur in ontwikkelingslanden te ontwikkelen en te financieren. Overheden in ontvangende ontwikkelingslanden erkennen dat en maken hier gebruik van. Wat uiteindelijk telt, zijn de controles en waarborgen van programma's en de daadwerkelijke toepassing daarvan in de praktijk. Zij bepalen de gunstigste ontwikkelingsuitkomst voor de beste prijs met het optimale financieringsaanbod dat aansluit bij de behoeften van de ontvangers, en niet de retoriek van het formele (ont)bindingsregime (zie onze suggesties in het volgende onderdeel).

Programmabeheer en toezicht

8. *Het programmabeheer en de institutionele waarborgen van ORET waren adequaat. De uitvoerende organisaties waren uitstekend georganiseerd voor de beoordeling van aanvragen. Ze waren minder goed in het monitoren van transacties en het evalueren van resultaten en werden daartoe ook niet aangemoedigd door het ministerie.*

Binnen de overeengekomen contractvoorwaarden werd het ORET-programma steeds goed beheerd, eerst door FMO in de periode van 2002-2006 en vanaf 2007 door het ORET.nl consortium. ORET had een goede reputatie in de perceptie van zowel aanvragers als afnemers/ontvangende overheden. De ORET-procedures tijdens de aanvraag- en beoordelingsfase werden over het algemeen als degelijk en redelijk ervaren door beide partijen. De meeste transacties werden binnen de overeengekomen periode en budget gerealiseerd. De flexibiliteit in de driehoek tussen de aanvrager als drijvende kracht achter de transactie, de afnemer/ontvangende overheid en de uitvoerder van ORET was een belangrijke succesfactor tijdens zowel de beoordeling als de uitvoering van de meeste transacties.

ORET.nl hield zich meer afzijdig bij het voorbereiden van transacties, daartoe zo geïnstrueerd door het ministerie begin 2007. Dit werd blijkbaar nodig geacht om een belangenconflict te vermijden in de latere beoordeling van aanvragen en bij de besluitvorming over de toewijzing van middelen. Dit werd ook ingegeven door de pragmatische reden dat ORET.nl overspoeld werd door de omvangrijke werkvoorraad en nieuwe aanvragen. De benadering van ORET.nl in het beheer van de subsidiefaciliteit was anders dan die van FMO die meer samen met de aanvrager en de afnemer de transacties ontwikkelde. De aanpak van FMO resulteerde bij sommige transacties wel in erg gedetailleerde beleidsvoorwaarden in de schenkingsovereenkomsten met de ontvangende overheden. Alhoewel de conditionaliteit op goede bedoelingen was gestoeld, leek er toch sprake van een overschatting van de invloed van de ORET-schenking, zeker bij de beïnvloeding van politiek gevoelige beleidskwesties. Dit betrof bijvoorbeeld de hoogte van de watertarieven voor eindgebruikers en de bereidheid of capaciteit van vakministeries om de jaarlijks terugkerende kosten van onderhoud te financieren en parallelle investeringen te doen in benodigd personeel van de afnemers of aanvullende infrastructuur zoals vrije busbanen.

Enerzijds had ORET.nl in het ontwerpproces van aanvragen zijn voordeel kunnen doen met een meer gezamenlijke ontwikkeling van de transactie met de aanvrager en de afnemer. In sommige transacties faalde de toets op de bekwaamheid (*due diligence*) van de aanvrager en/of de afnemer waardoor problemen in de uitvoering ontstonden. Het beleid van ORET.nl ten aanzien van onafhankelijk toezicht op de uitvoering van werken was onduidelijk en ontbeerde consistentie. Het was onduidelijk wanneer besloten werd om een toezichthouder in te huren, het supervisiecontract apart te houden van het onderliggende aannemingscontract, en te combineren met technische assistentie en trainingsactiviteiten. Noch de complexiteit van een transactie, de ervaring van het uitvoerende bedrijf noch de kennis van de afnemer of ontvangende overheid geven daarvoor consistente aanwijzingen. Anderzijds was een onafhankelijke Adviescommissie die was samengesteld uit erkende experts met verschillende achtergronden, een zeer nuttig onderdeel ter versterking van de kwaliteit van het besluitvormingsproces van ORET.nl.

ORET had onvoldoende capaciteit om gegevens over outcomes te verzamelen en was in zijn monitoring- en evaluatiesysteem te afhankelijk van de gegevens die de aanvragers verstrekten. In het algemeen was er weinig transparantie over de wijze van selectie van ORET-aanvragen en de toewijzing van fondsen. De jaarrapporten en andere overzichten van zowel FMO als ORET.nl waren bestemd voor het ministerie en waren geen openbare documenten. Informatie werd alleen verstrekt en openbaar indien het parlement daar uitdrukkelijk om vroeg. Het ontbreken van geverifieerde resultaten van transacties op het niveau van het gebruik van de infrastructuur en het gedrag van begunstigden en het niet electronisch toegankelijk zijn van de dossiers ondersteunden ook niet de leercyclus binnen ORET. Een en ander was het gevolg van een gebrek aan toezicht door het ministerie. Daarbij moet worden aangetekend dat toendertijd het beleid ten aanzien van monitoring en evaluatie voor private sectorontwikkeling binnen het ministerie nog grotendeels in de kinderschoenen stond. De aanbeveling uit de vorige ORET-evaluatie op dit gebied werd wel toegepast bij de striktere monitoring- en evaluatierichtlijnen voor de opvolger ORIO.
Het probleem van onvoldoende inzicht in de resultaten werd verschillende malen opgebracht in de reguliere beleidsdialoog tussen ORET.nl en het ministerie maar nooit opgepakt door het ministerie. Dit terwijl de bestedingen na 2007 omvangrijk waren en ORET verreweg het grootste programma bleef binnen het Nederlandse PSO-beleid.

Lessen voor toekomstige infrastructuurinstrumenten

Aan de hand van de bovenstaande algemene bevindingen en andere conclusies in het evaluatierapport doet IOB graag een aantal suggesties voor het opvolger programma DRIVE en andere PSO-instrumenten voor openbare infrastructuur in ontwikkelingslanden. IOB baseert deze op de vooronderstelling dat Nederland een bilateraal en centraal beheerd programma voor de financiering van openbare infrastructuur in ontwikkelingslanden wil handhaven, ten einde de ontwikkelcapaciteit van zijn eigen bedrijfsleven in bepaalde niches te mobiliseren om daarmee binnenlands brede politieke steun voor ontwikkelingssamenwerking in stand te houden.

Onze suggesties voor een opvolger-programma komen neer op handhaving van de basisstructuur van ORET maar daarbinnen zien we wel ruimte voor verdere verbeteringen. Onder erkenning van alle belangen en aanwezige competenties stelt IOB voor om deze volledig transparant te maken. IOB bepleit om een aantal nieuwe controlemechanismen en waarborgen en toegespitste modaliteiten (op het gebied van financiering en technische assistentie) in te voeren. Die zouden meer value for money kunnen opleveren en tegelijkertijd het programma meer kunnen oriënteren op infrastructuur die gericht is op armoedevermindering. Dergelijke aanpassingen zouden de ontwikkelingsrelevantie van een opvolger programma kunnen vergroten, de prijs/kwaliteitsverhouding van individuele transacties verbeteren, de verantwoording naar belanghebbenden bij het programma versterken en de mogelijkheden in de projectcyclus om te leren uitbreiden.

Met deze overwegingen in gedachten beveelt IOB de volgende aanpassingen aan voor een opvolger:

1. *Als het doel is om de effectiviteit van een infrastructuurprogramma te vergroten, versterk dan de focus op openbare infrastructuur waarbij de Nederlandse financiering additioneel is en die is gericht op armoedevermindering. Dit zou tot uitdrukking kunnen komen in de doelstellingen, de selectie en beoordeling van aanvragen en de lijst van kwalificerende ontwikkelingslanden.*

- **Eén overkoepelende doelstelling.** Nederland zou zich kunnen onderscheiden van andere donoren door een veelomvattende aanpak van de ontwikkeling en financiering van openbare infrastructuur. Daarbij zou de Nederlandse financiering additioneel moeten zijn ten opzichte van andere beschikbare bronnen en afgestemd zijn op de financieringsbehoeften. Dit zou vooral het geval zijn bij: (i) armere ontwikkelingslanden die minder overheidsinkomsten en minder toegang hebben tot commerciële financieringsbronnen; en (ii) het type infrastructuur dat minder of geen eigen inkomsten genereert via gebruikersheffingen maar dat wel een direct positief effect heeft op armoedevermindering. Nederland zou dit kunnen benadrukken door de ontwikkeling van openbare infrastructuur met een sterke focus op armoedevermindering waarvan de ontvangende overheid het eigenaarschap heeft, de overkoepelende doelstelling te maken van een bilateraal subsidieprogramma, in plaats van de (impliciete) tweeledige doelstelling tot op heden. Na de sluiting van ORET voor nieuwe aanvragen zijn immers nieuwe Nederlandse instrumenten ingevoerd in andere PSO-clusters. Deze zijn beter uitgerust

voor het doel van private sector ontwikkeling en het meer impliciete doel van maximale (export)orders voor het Nederlandse bedrijfsleven (inclusief MKB's) zoals het Dutch Good Growth Fund. Hoewel erkend moet worden dat er in de praktijk enige spanning kan ontstaan tussen het eigenaarschap van de ontvangende overheid en het effect op armoedevermindering, kan dit naar ons oordeel worden opgevangen in de selectiecriteria van het programma. In essentie komt het neer op een striktere toepassing van de twee OESO-Consensus criteria van commerciële niet-haalbaarheid van de transactie: een lange terugverdienperiode van minstens 10 jaar en (niet: of) de ontvangende overheid is niet in staat om langere termijn commerciële financiering aan te trekken of heeft geen toegang tot andere binnenlandse financieringsbronnen.

- **Een selectiemodel gebaseerd op concurrentie tussen aanvragen.** IOB adviseert om opnieuw het schoonheidswedstrijd selectiemodel van de eerdere ORIO versie te introduceren maar dan in een minder gecompliceerde vorm. Dit zou meer concurrentie tussen aanvragen stimuleren op basis van additionaliteit en effectiviteit op armoedevermindering. Een transparant en openbaar selectieproces zou ook richting kunnen geven aan potentiële aanvragers en ontvangende overheden. Een minimum alternatief zou kunnen zijn de invoering van indicatieve landenplafonds over de gehele programmeringsperiode van een opvolger programma, gecombineerd met de project-identificatiemechanismen die hieronder worden uitgewerkt.

- **Minder kwalificerende landen.** De additionaliteit, de focus op armoedevermindering en de effectiviteit zouden verder versterkt kunnen worden door de huidige lijst van kwalificerende ontwikkelingslanden in te perken. Daarbij zou rekening kunnen worden gehouden met het ontwikkelingsniveau van ontvangende landen, de commerciële niet-haalbaarheid van een aanvraag, het risico van marktverstoring met publieke middelen en de noodzaak van diepgaande kennis van de lokale context bij aanvragers, uitvoerende organisatie en Nederlandse ambassades om effectief te kunnen zijn.

- **Focus op armere landen en grotere transacties.** Om de ontwikkelingsimpact te vergroten zou de vertaling van bovenstaande overwegingen het volgende kunnen betekenen:
  i. een nadruk op armere landen (MOL's) en een nader te definiëren, maar wel beperktere groep van lage inkomenslanden (LICs) en op zijn hoogst Lagere-Middeninkomenslanden (LMICs) die in ieder geval de huidige partnerlanden omvatten. Zelfs binnen de groep van MOL's kan een verdere inperking worden overwogen omdat de status van MOL nu ook geen recht geeft om als partnerland van Nederland te worden geselecteerd;
  ii. prioriteit voor openbare infrastructuur die additioneel is, die een groter direct effect heeft op armoedevermindering en die marktverstoring met hulpgelden vermijdt; en
  iii. introductie van een minimum transactiebedrag, in aanvulling op het bestaande transactieplafond. Grotere transactiewaarden zouden de invloed van het programma op ontvangende overheden kunnen vergroten ten aanzien van gevoelige beleidskwesties, zoals evenwichtige gebruikerstarieven en transparante facturering en inning. Grotere transacties kunnen de hogere kosten van een beter monitoring en evaluatiesysteem beter dragen en rechtvaardigen.

2. *Vergroot de efficiëntie van een opvolger programma en de effectiviteit van transacties door betere controle- en waarborgmechanismen (checks and balances) in te voeren in het selectieproces, het beheer en de uitvoering van het programma, en door bepaalde voorwaarden te laten vallen terwijl andere eisen worden aangescherpt.*

- **Verbeter het ICB-proces.** In het licht van de eerdere afspraken gemaakt over ontbinding in de OESO/DAC, bepleit IOB het volledig ontbonden karakter van een opvolger-programma voor kwalificerende MOL's te handhaven maar het toezicht op het internationale aanbestedingsproces door de uitvoerende organisatie van de opvolger te verbeteren. Daarnaast zou technische assistentie kunnen worden geleverd aan de aanbestedende autoriteiten. Een en ander zou de mededinging en de transparantie van de internationale aanbestedingsprocedures versterken.

- **Nieuwe controlemechanismen en waarborgen voor meer *value for money.*** Tegelijk moet de waarde worden erkend van de drijvende kracht achter een aanvraag van het leverende bedrijf. Dat heeft immers commerciële en reputatiebelangen op het spel staan om duurzame resultaten te laten zien. Voor kwalificerende niet-MOL's suggereert IOB daarom om hun nationale aanbestedingsregels leidend te laten blijven, maar indien daarbinnen ruimte is, om de gebonden status voor deze categorie ontvangende landen te handhaven door alleen Nederlandse aanvragers toe te staan. Dit zou ook een strikte toets impliceren van schakelvennootschappen op hun (productieve) aanwezigheid in Nederland voordat ze in aanmerking kunnen komen als aanvrager. In plaats van een volledige ontbinding van transacties in een opvolger-programma te introduceren in de vorm van een oppervlakkige ICB-procedure, stelt IOB voor om bij niet-MOL's de value for money factor te vergroten door nieuwe controlemechanismen en waarborgen en betere monitoring- en evaluatieprocedures in te voeren. Het programma zou de MOL's uit een apart budget technische ondersteuning in het ICB-proces kunnen bieden. Kwalificerende niet-MOL's zou cofinanciering kunnen worden aangeboden om een eigen internationale prijsconsultant in te huren om hen te ondersteunen bij contractonderhandelingen met de aanvrager over de prijs en kwaliteit van de transactie.

- **Aanpak van aanbestedingsrisico's.** IOB adviseert dat een opvolger programma risico's gerelateerd aan het aanbestedingsproces verkleint door middel van een voorafgaande toets van de contracten met het hoogste risicoprofiel op potentieel misbruik en onafhankelijke reviews achteraf op basis van een steekproef van goedgekeurde transacties. Daarnaast zou regulier onderzoek kunnen worden gedaan naar de efficiëntie van het aanbestedingsproces en risico-verlagende procedures die mededinging, efficiëntie, transparantie, rechtvaardigheid en ontwikkeling van markten in ontvangende landen door inschakeling van lokale onderaannemers kunnen bevorderen. Het gebruik van nationale aanbestedingssystemen van ontvangende landen en het bevorderen van nationale voorkeur om daarmee de aanbodstructuur van hun economie te versterken zouden afhankelijk gemaakt kunnen worden van de mate waarin de systemen van ontvangende landen afwijken c.q. overeenstemmen met de richtlijnen van de Wereld Bank t.a.v. internationale aanbesteding.

- **Afschaffen van de regels voor het minimum Nederlandse aandeel in niet-MOL's.** Het voorgeschreven minimum Nederlandse aandeel om minstens 50% van de *inputs* in een transactie uit Nederland te halen, kan worden afgeschaft. De regel is overbodig geworden, heeft in sommige gevallen creatief boekhouden uitgelokt en kan de kosten hebben verhoogd van bepaalde *inputs* waarvoor nog slechts een beperkt aantal Nederlandse leveranciers bestaat. Daarnaast heeft de regel de soms goedkopere lokale uitbesteding van onderdelen van de transacties belemmerd. Een grotere mate van uitbesteding in ontvangende landen zou ook de directe en indirecte effecten van transacties op werkgelegenheid kunnen vergroten. Het opvolger-programma zou zelfs een stap verder kunnen gaan en kunnen overwegen om lokale uitbesteding van onderdelen expliciet te belonen, bijvoorbeeld door een prijspreferentie op onderdelen of onderaannemers te geven, op voorwaarde dat minimum eisen voor transparante aanbesteding worden nagekomen.

- **Een striktere toets op de geschiktheid van aanvragers en afnemers.** IOB stelt een scherpere *due diligence* toets voor van aanvragende bedrijven en bieders in zowel de ICB-procedures als de gebonden variant. Een effectief infrastructuur programma is niet het geschikte instrument om de nationale export of directe investeringen van Nederlandse MKB-bedrijven in ontwikkelingslanden te stimuleren. Daarvoor is nu bovendien het DGGF beschikbaar. Lokale capaciteit of ervaring met lokale omstandigheden in ontvangende landen zijn vaak cruciaal gebleken voor een succesvolle infrastructuur transactie. Een aanvrager is bij voorkeur bekend met de lokale situatie of, nog beter, is lokaal vertegenwoordigd. De kans op duurzame resultaten van de investering wordt ook vergroot indien het uitvoerende bedrijf primair verantwoordelijk wordt gemaakt voor de leverantie van onderdelen, technische assistentie en training (zie hieronder).

- **Gezamenlijke ontwikkeling.** IOB adviseert een meer gezamenlijke ontwikkeling van transacties door de aanvrager, de afnemer en de uitvoerder van de faciliteit, zoals de FMO dat vroeger deed. Wat betreft de beoordeling van aanvragen wordt aanbevolen om de uitvoerende organisatie altijd een voorafgaand veldbezoek te laten plegen om daarmee een goed idee te krijgen van de lokale context en de institutionele kracht of zwakte van de afnemer/eindgebruiker. Een grotere betrokkenheid van de uitvoerende organisatie bij de vorm van contracten (bij voorkeur Turnkey contracten), zowel in MOL's en niet-MOL's, zou ook kunnen bijdragen aan de effectiviteit van de transacties.

- **Een striktere scheiding van rollen en verantwoordelijkheden.** IOB stelt een striktere scheiding van rollen en verantwoordelijkheden in de uitvoering voor, in het bijzonder bij supervisiecontracten van complexe infrastructurele werken. Een opvolger-programma zou een helder beleidskader kunnen ontwikkelen voor de supervisie van de uitvoering van transacties aan de hand van een risico inschatting van de complexiteit ervan. Een ingehuurde toezichthouder zou in dienst moeten zijn van de afnemer en bij voorkeur nauw moeten samenwerken met een lokale tegenhanger bij de afnemer of vakministerie. Contracten voor supervisie zouden altijd zelfstandig en los van het onderliggende contract voor werken moeten worden afgesloten en niet gecombineerd moeten worden met de onderdelen technische assistentie en capaciteitsopbouw binnen de afnemer van de ORET-transactie.

- **Versterking van de duurzaamheid.** Technische assistentie, leverantie van reserve-onderdelen en capaciteitsopbouw bij de afnemer zouden verplichte onderdelen van iedere transactie moeten worden. Het zou ook de verantwoordelijkheid moeten worden van de aanvrager om de duurzaamheid van de transactie te versterken en een cultuur van regulier onderhoud te introduceren binnen de afnemer.

3. *Vergroot de* value for money *factor in de financieringsmodaliteiten en versterk de financiële duurzaamheid van transacties door meer op maat gesneden oplossingen toe te staan binnen een transparant beleidskader.*

- **Modaliteiten voor aanvullende financiering en verzekering van exportkredieten.** Nederland zou kunnen overwegen om de voormalige functie van de Nederlandse Investeringsbank voor Ontwikkelingslanden (NIO) te doen herleven. Daarmee zou de verstrekking van lange termijn concessionele leningen aan kwalificerende landen voor dit type infrastructurele transacties worden in-besteed, net als het beheer van ORIO en nu van DRIVE wordt in-besteed bij de Rijksdienst voor Ondernemend Nederland (RVO). Een NIO zou met een nieuw mandaat als huisfinancier in tandem kunnen werken met de RVO. De NIO zou, met de garantie van de Nederlandse staat, voor de voorzienbare toekomst lange termijn financiering uit de kapitaalmarkt kunnen aantrekken tegen hele gunstige voorwaarden om door te lenen aan kwalificerende ontwikkelingslanden. Dit zou in feite een terugkeer betekenen naar het LCL-financieringsmodel van ORET eind jaren '80. Dit zou qua financieringsmodaliteit veel beter passen bij de behoeften van openbare infrastructuur in arme landen, in het bijzonder voor infrastructuur die is gericht op armoedevermindering. Als de NIO concessionele leningen zou kunnen verstrekken voor het gehele transactiebedrag, zou het huidige model van relatief dure eenmalige financieringskosten overbodig worden. De hefboomwerking van de ORET-schenkingen in een gemengde kredietenprogramma zou hierdoor wel verloren gaan. Dit kan worden opgevangen door een groter leningsbudget, waarbij de netto contante waarde van deze leningen gelijkgesteld kan worden aan het beoogde subsidiebedrag voor DRIVE (in lijn met de nieuwe ODA rapportage-regels).

- **Op maat gesneden financiële oplossingen.** Het inbesteden van lange termijn financiering zou meer mogelijkheden creëren voor meer op maat gesneden financiële oplossingen. De schenkingsgraad van de ontwikkelingsleningen (uitgedrukt als de contante waarde van de aflossingsvrije periode, de lengte van de uitkeringsperiode en de aflossingsperiode van de lening en de rentevoet) zou beter afgestemd kunnen worden op de inkomenscategorie van het ontvangende land, de armoedefocus van de transactie en de terugverdienperiode van de transactie. Deze aspecten hangen ook samen met de mate waarin de beoogde infrastructuur in staat is inkomsten via gebruikerstarieven te genereren of de capaciteit van de ontvangende overheid om zelf budgetmiddelen toe te wijzen voor uitvoering en onderhoud. In dit opzicht zou het ministerie wel rekening moeten houden met de recente wijzigingen in de DAC-rapportageregels van zachte leningen. De ODA-prestatie van donoren wordt met de nieuwe regels meer beloond voor zachtere leningen aan armere landen dan hardere leningen aan rijkere landen.

- **Maak het goedkoper en houd het eenvoudig.** Mocht inbesteden van de leningsfaciliteit voor ontwikkelingslanden politiek niet haalbaar blijken, dan zou een terugvalpositie kunnen zijn om de huidige gemengde kredietenvorm met zijn hefboomwerking van ORET-schenkingen te behouden maar tegelijkertijd de kosteneffectiviteit te verhogen. De evaluatie laat zien dat de verzekerde commerciële exportkredieten met betrekking tot ORET-transacties en gegarandeerd door ontvangende overheden zich hebben gedragen als een 'bijzondere' risicocategorie. Het bijna te verwaarlozen risico op wanbetaling geeft een goede reden om in gesprek te gaan met het ministerie van Financiën over de huidige risicoclassificering van aan ORET gebonden leningen en de hoogte van de premies voor kredietverzekering van deze categorie van leningen. Een optie zou kunnen zijn om een andere behandeling voor te stellen bij de OESO-Consensus van deze gemengde kredieten voor overheden. Een andere optie zou kunnen zijn de hierboven beschreven in-besteding.

Aanvullend adviseren wij om de financieringsmodaliteiten zo eenvoudig mogelijk te houden en niet teveel aan *financial engineering* te doen. Een stapeling van verschillende financiële instrumenten zou moeten worden vermeden om toch maar commerciële leningen te kunnen verstrekken aan landen die in het geheel niet kredietwaardig zijn. Schuldhoudbaarheid van de ontvanger zou daarom een voorwaarde moeten blijven bij elk infrastructuurprogramma. Bij een voortgezette combinatie van ORET-schenkingen met commerciële leningen kan het schenkingsdeel nog steeds volledig als ODA worden gerapporteerd aan de DAC. Daardoor wordt de ODA-prestatie van het opvolger-programma niet aangetast. De toegestane uitzondering op de ORET-regel in de financieringsarrangementen voor twee transacties in Sri Lanka verdient wat ons betreft geen navolging. Daarbij werd de ORET-schenking gebruikt voor subsidiëring van de rentebetalingen over de commerciële lening voor de gehele transactiewaarde.
De belangrijkste reden om dit niet te doen, zijn de aanzienlijke hogere eenmalige financieringskosten voor de ontvangende overheid, in het bijzonder voor de kredietverzekeringspremie.

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Public infrastructure is at the core of structural transformation in developing countries. It is also crucial to support social progress and to achieve the Millennium Development Goals. The Development-Related Export Transactions programme (ORET, the Dutch acronym of *Ontwikkelingsrelevante Export Transacties*) began in 1979 and has been the longest running infrastructure facility of the Ministry of Foreign Affairs. ORET co-financed commercially non-viable investments in public infrastructure in developing countries by providing grants for 35% (in non-LDCs) to 50% (in LDCs) of the transaction costs. ORET was closed for new applications in August 2007. It was succeeded in 2009 by a new facility named ORIO, which in turn was closed in April 2014. This report presents the results of the final evaluation of ORET over the period since 2007. The findings are based on a portfolio review of all 139 ORET transactions in the research period and 13 case studies consisting of 24 transactions. Recognising the political reality in the Netherlands, IOB offers suggestions for a successor programme focused more on poverty-alleviating infrastructure.

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